

**Shear Minerals Ltd.**

Annual Report 2006

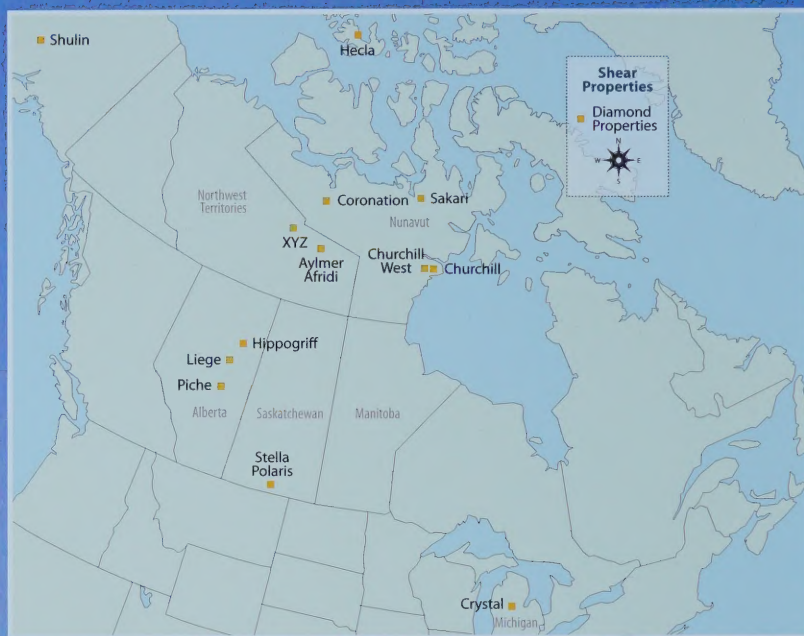


## CAUTIONARY STATEMENT REGARDING FORWARD- LOOKING INFORMATION

Certain information contained in this annual report constitutes forward-looking statements, which include without limitation, statements relating to the market conditions for diamonds, the activities and results of diamond and other resource companies, results relating to Shear's properties and planned exploration programs. Forward-looking statements are based on the reasonable opinions and estimates of management of Shear and are subject to a variety of risks, uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking statements.

These factors include: the inherent risks involved in the exploration and development of mineral properties, uncertainties involved in the interpretation of drill results and other geological data, fluctuating commodity prices, unforeseen permitting requirements, changes in environmental laws or regulations, the possibility of project cost overruns or unanticipated costs and expenses, weather conditions, aboriginal land claims, the availability of contractors for equipment and services, the availability of future financing and general business and economic conditions. Such statements are also based on a number of assumptions which may prove to be incorrect, including assumptions about general business and economic conditions, public information including pertaining to other issuers being accurate, the timing and receipt of regulatory approvals for projects and operations, the availability of financing, the ability to secure equipment and labour, and Shear's ongoing relationship with third parties.

The foregoing factors, risks and assumptions are not exhaustive. Events or circumstances could cause actual events or results to differ materially from those estimated or projected and expressed in, or implied by, these forward-looking statements. Accordingly, readers should not place undue reliance on forward-looking statements. These statements are as of the date they are made and Shear disclaims any obligation to update any forward-looking statements, except as required by law.



[www.shearminerals.com](http://www.shearminerals.com)

**The annual general meeting  
of the shareholders of the  
Company will take place at  
The Fairmont Palliser, 133, 9<sup>th</sup>  
Avenue SW in Calgary, Alberta,  
on Tuesday, September 18,  
2007 at 2.30 pm.**

**Shear Minerals Ltd.** is a Canadian-based exploration company focused on diamond exploration in the Canadian North where it explores in established diamond districts and has discovered new ones. It currently has a portfolio of ten diamond projects, seven of which are drill-ready. The Company has advanced its 58%-owned Churchill Diamond property in Nunavut from a conceptual grassroots project to a new kimberlite district hosting more than 50 kimberlites. Shear is assessing four highly diamond-bearing kimberlite dykes at Churchill to determine diamond grade, value and potential tonnage. Ongoing exploration drilling is also underway to locate the source of 36 high-interest indicator mineral trains.

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Top group of diamonds from Kahuna mini bulk sample.  
Bottom group of diamonds from Notch mini bulk sample

Cover photographs: circle inset – 0.55 carat diamond recovered from PST003 mini bulk sample

Diamonds on left margin of cover and above right originated as follows: (top to bottom) Kahuna central drill core, Kahuna North drill core, PST003 mini bulk sample, PST003 till sample and Notch mini bulk sample

*Note: Diamonds are not shown to scale*

# Investment opportunity

- ◆ Shear Minerals Ltd. is a diamond exploration company with a control position in the Churchill Diamond Project, Nunavut, which is top-ranked among global diamond exploration projects.
- ◆ Churchill is located near the full-service communities of Rankin Inlet and Chesterfield Inlet and close to tide water and extensive infrastructure.
- ◆ High preliminary diamond grades from mini bulk samples in 2006 of four vertical kimberlite dykes justify an aggressive, \$8.5-million exploration program in 2007.
- ◆ The highest sample grade returned was 2.18 carats per tonne at the PST003 kimberlite dyke, followed by 1.11 carats per tonne at Kahuna, 0.82 carats per tonne at Notch and 0.49 carats per tonne at Jigsaw.
- ◆ The diamonds are described as clear, colourless to white and dominated by octahedrons with some macles, dodecahedrons and twins. The three largest are 0.55 carats, 0.44 and 0.29 carats.
- ◆ This year work will be focused on collecting larger samples of up to 400 tonnes from one or more of the four kimberlite dykes in order to assess diamond grade, value and potential tonnage.
- ◆ Ongoing exploration drilling is also underway to locate the source of high-interest mineral chemistry in what is potentially an extensive diamond-bearing system on the Churchill property.
- ◆ Shear also has an extensive diamond property portfolio of ten other North American-based projects, seven of which are drill-ready.



# The big Kahuna!

## Dear Shearholders

ON BEHALF of the Board of Directors, I am pleased to report on the accomplishments and activities of Shear Minerals during the past year and to present the audited financial statements for the year ending November 30, 2006.

As we are all aware Canada is a world focus for diamond exploration and development, now having three diamond mines and another four on the horizon. The discovery of economic diamond mines generates huge rewards for investors.

At present, the resource sector is in a bull market, the likes of which we may have never seen with copper, gold, uranium, zinc and other commodities trading at steady high price levels. The diamond sector is also enjoying strong price performance. The global demand for diamonds over the next 15 years is predicted to rise and rough diamond prices are forecast to double as production at some major mines decreases.

Diamond exploration takes time, patience and commitment. As long as the geological clues are there, sometimes it takes coming back again and again to a project to prove up a resource. Shear's flagship Churchill Diamond Project is a perfect example, with expenditures of over \$25 million and more than five years of systematic exploration since 2003 that just last year resulted in the discovery of four highly diamond-bearing kimberlites that we have the potential to advance extremely quickly.

I am pleased to report on these four high-grade diamond-bearing kimberlites in this letter. The four kimberlites match the high-interest regional indicator mineral chemistry that we have been tracking down over the years and represent a NEW kimberlite type on the property. We now believe we have located an extensive diamond bearing kimberlite system on the Churchill property.



Pamela Strand

The Kahuna, Notch, Jigsaw, and PST003 kimberlites are vertically emplaced dykes up to four metres in width, which returned a total of 18.16 carats from the processing of 17.26 tonnes, producing sample grades ranging from 0.49 to 2.18 carats per tonne. These dykes represent some of the highest grade kimberlites to be discovered in northern Canada in the last decade. In each case, diamond populations are dominated by clear white (colourless) stones of high quality characteristics which indicate the potential for high average diamond values. The three largest diamonds are 0.55, 0.44 and 0.29 carats.

The 2007 program at Churchill will be twofold:

Firstly, we will complete larger, more definitive samples of between 100 and 400 tonnes from one or more of the four kimberlites to better understand diamond grade, value and potential tonnage. This information will assist us to develop a resource model to make a preliminary assessment of the project's economic potential.

Secondly, using what we have learned from recent diamond bearing kimberlites, we will pursue aggressive exploration drilling in 17 key areas with unsourced high-interest mineral chemistry.

In addition, in 2007 we took advantage of the opportunity to increase our interest in Churchill by acquiring an additional 6.25% interest in a project which is advancing rapidly. This, in turn, will give us flexibility going forward to mitigate shareholder dilution and to maintain control. With this purchase, the project has been valued at \$150 million based on Shear's stock price.

The Churchill project is located 50km from Rankin Inlet and with its close proximity to tidewater, we are well positioned to take advantage of excellent existing infrastructure.

Shear maintains interests in ten other diamond properties that have been chosen

## CHURCHILL PROJECT TIMELINE >>>

### IT STARTED WITH AN IDEA

#### 2001

■ Shear signs an option agreement with Hunter Exploration to acquire 50% in a conceptual diamond project in the Rankin Inlet region of Nunavut. The project is initially called "TrustMe".

■ Shear collects 48 samples on open ground: 52% contain kimberlite indicator minerals including G10 pyrope garnets.

#### 2002

##### FEB.

The initial 340,000 acres of core land is staked.

##### JUNE

Partnership created with Northern Empire Minerals. Northern Empire subsequently merges with Stornoway Ventures to become Stornoway Diamond Corp. In terms of this agreement Shear acquires an additional 1% ownership, giving it control of the joint venture.



based on high technical merit. In the last six months we have added one new project in Michigan. Shear will actively explore these projects and is planning to drill-test two of them, one in the Northwest Territories and one in Alberta.

We are looking forward to the 2007-2008 exploration season where the opportunity exists for the Churchill project to move quickly from exploration into more advanced work. As this unfolds, we believe our work will generate more interest from analysts and attract shareholders in new regions. Compared to many other diamond exploration projects, Shear has now removed much of the early stage exploration risk and our focus is on advancing Churchill as fast as possible to realize the largest possible upside for shareholders.

I would like to recognize the outstanding effort and enthusiasm of everyone involved in our activities over the past years including the financial community, our technical team, corporate and administrative employees, consultants, and the directors and officers. I would also like to offer my thanks to our shareholders, whose confidence and patience has enabled us to continue our exploration programs. Lastly, I would like to thank the Inuit and Northern people whose support and trust has enabled us to make our discoveries.

Our search for Canada's next diamond mine continues and we look forward to an exciting year ahead.



**Pamela Strand**  
President and CEO  
Shear Minerals Ltd.

#### AUG.

An initial fixed-wing magnetic survey of 16,307 line-km is completed.

#### SEPT.

Samples continue to prove up potential with 30 out of 135 containing kimberlite indicator minerals. More than 45% of the pyropes plot within the G10 field.



## THE YEAR LEADING TO DISCOVERY

### 2003

#### JAN. 30

Shear announces a \$2.5 million program at Churchill for ground geophysics, detailed till sampling and drill-testing of at least 15 targets.

#### FEB. 4

Churchill Project increases to 1 million acres.

#### MAR. 5

217 targets including 29 of high priority are identified from the airborne geophysics.

#### MAY 12

Ground geophysical surveys identify 23 high-priority drill-targets.

## A milestone-driven company

Shear believes that significant goals, or milestones, provide the market with a tool with which to track our progress towards our longer-term objectives. Milestones are formulated to show the progress we are making in systematically exploring and developing our Churchill project, reducing overall risk and strengthening the Company.

### In 2007 Shear plans to:

- ◆ Release and assess results from the 2006 mini bulk sample at Churchill
- ◆ Collect and report 100- to 400-tonne samples on one or more diamond bearing kimberlites
- ◆ Assess diamond grade, value, and potential tonnage of one or more kimberlites
- ◆ Commence a preliminary economic evaluation of Churchill
- ◆ Acquire necessary land-use permits for planned exploration
- ◆ Conduct ongoing exploration drilling to locate and assess diamondiferous pipes, dykes and blows along dykes
- ◆ Discover the source of remaining unexplained indicator mineral trains
- ◆ Undertake sampling, prospecting and evaluation of the North Corridor
- ◆ Drill-test at least two other projects

### Last year's milestones:

- ✓ Interpret ongoing results from more than 4,200 surface samples to isolate areas of interest for drilling
- ✓ Identify geophysical targets for drilling within and at the head of indicator mineral trains, some with diamonds
- ✓ Drill up to 25 targets, starting in May
- ✓ Release ongoing microdiamond results from drilling
- ✓ Mobilize onsite indicator mineral laboratory for use in the Josephine River Corridor which will facilitate turnaround of results in 2006
- ✓ Identify one kimberlite body with favorable microdiamond results for possible bulk sample
- ✓ Advance exploration on our other diamond projects in Alberta and Saskatchewan



Mini bulk sampling pit at Kahuna kimberlite, April 2007

### CHURCHILL DIAMOND PROJECT, NUNAVUT

# Progressing towards development

**Shear Minerals'** 58%-owned Churchill Diamond Project continued to produce exciting results in 2006 and maintained its position as the Company's flagship property. The opportunity at Churchill is for the project to move from early exploration, through advanced exploration and, with ongoing positive results, towards development. >>



## 2003

### MAY 26

Additional staking increases land position to more than 1.5 million acres.

### JUNE 2

BHP Billiton (BHPB) acquires Hunter's diamond interest in the property for \$3 million. Hunter retains a royalty.

### JUNE 2

Crew mobilized into Rankin Inlet to commence drilling.

### JUNE 5-7

Drill moves onto first target CK151. Drill-hole CD001 intersects kimberlite on first 12-hour shift after 40 feet of overburden.

### JUNE 9 - JULY 2

Six additional kimberlites are discovered at Churchill.

### JULY

The kimberlite field is expanded to an area 30km x 15km with the discovery of two new kimberlite pipes. First kimberlite float discovered.

### JULY 28

First phase of drilling completed. The 1,275-metre program tested 15 targets within a 600 sq. km area and resulted in the discovery of 11 kimberlite pipes.



Kimberlite is loaded into sample bags at the Kahuna kimberlite

PHOTO COURTESY OF NUNA M&T SERVICES

#### AUG. 13

Partners expand the program with an additional \$1.5 million budget due to initial success.

#### AUG.

Intensive till sampling is undertaken to follow up high priority G10 corridors.

#### SEPT. 19

Four additional kimberlites discovered in second phase of drilling at Churchill, bringing total to 15.

#### SEPT. 26

Micro diamonds are recovered from Churchill's six initial kimberlites.

#### OCT.

Last hole for season intersects

kimberlite: final count for the year is 16 kimberlites at Churchill.

#### DEC. 19

Final 2003 micro diamond results from Churchill and Churchill West diamond projects confirm 10 of 18 kimberlites are diamondiferous, compared with a world average of 14%.



## Advanced Exploration

The Churchill project is comprised of diamond rights to more than two million acres located near the full service communities of Rankin Inlet and Chesterfield Inlet in the Kivalliq region of the settled land claim territory of Nunavut, Canada. Situated on the shores of Hudson Bay, exploration is facilitated using barge and adjoining rail access.

In 2006, more than 2,500 metres of drilling was completed in 38 drill holes. Total drilling on the project to date exceeds 10,000 metres in 130 drill holes which has led to the discovery of more than 50 kimberlites. Current efforts are focused on evaluating four significantly diamond-bearing, high-grade vertically-emplaced kimberlite dykes discovered in 2006.

In diamond exploration the information used to choose drill targets is critical. An extremely detailed geochemical and geophysical database has been amassed at Churchill. It includes 10,281 surface till samples containing more than 15,000 micro-probe analyses and 50,000 picked indicator minerals. Geophysical data contain more than 55,000 line-km of fixed-wing airborne geophysics, and 45,000 line-km of helicopter magnetics and electro magnetics flown at 75m to 25m line-spacing which resolves into more than 1,200 geophysical anomalies suggestive of kimberlite pipes or dykes.

### GEOLOGY

The project is located within the cratonic rocks of the Churchill Geologic Province. It is underlain by rocks of the metamorphosed Archean Rankin Inlet group and surrounding Archean meta-plutonic rocks of the Churchill Structural Province.

### PAST EXPLORATION

Before 2000, exploration in the region had been largely for gold and base metals. Previous kimberlitic discoveries include kimberlite dykes (dated between 192 and 214 million years old) intersected during drilling at the Meliadine gold deposit and the diamondiferous Parker Lake (Akluilak) dyke (dated at 1,832 million years) located just west of the property. In 2003, Cumberland Resources Ltd. and Comaplex Minerals Corp. drilled eleven kimberlites, and the Geological Survey of Canada reported numerous occurrences of kimberlite float throughout the Meliadine trend.

## Since 2003, Shear and its partners have discovered more than 50 kimberlites including ten kimberlite outcrops over a 60km by 60km area on the Churchill and Churchill West properties

### CHURCHILL KIMBERLITE DISCOVERIES: TWO TYPES OF KIMBERLITES CONFIRMED

Since 2003, Shear and its partners have discovered more than 50 kimberlites including ten kimberlite outcrops over a 60km by 60km area on the Churchill and Churchill West properties. Work is presently focused on continued exploration and evaluation of four significantly diamond-bearing vertically-emplaced kimberlite dykes discovered in 2006.

Exploration activities at Churchill have increasingly been driven by the hypothesis that two distinctly different types of kimberlite exist within the project area. In 2005, kimberlite float was discovered on the property that was different from previous kimberlite collected.

The 2006 exploration program finally confirmed the existence of two distinct types of kimberlite. They can be characterized as follows:

**Type 1** kimberlites have strong magnetic signatures. The rocks are fine-grained and possess dominantly magmatic textures with large olivine phenocrysts. They have low indicator mineral abundances dominated by ilmenite. Garnets are rare and mineral chemistry is poor. These kimberlites are associated with a warm geotherm and have a low diamond carrying capacity. Emplacement was between 170 and 242 million years ago. More than 45 kimberlites discovered on the property are Type 1.



### In the zone

#### 2004

##### FEB. 1

Churchill land ownership increases by 6.5 million acres in prospecting permits.

##### MAR.

\$7.8 million exploration program announced for 2004.

##### JULY

Program commences.

##### SEPT.

Four new kimberlitic bodies discovered bringing the total number of confirmed kimberlite occurrences at Churchill to 20.

The 2004 drill program is designed to test a variety of geophysical signatures within distinct corridors

where high-interest indicator minerals have been recovered in till samples.

##### OCT.

The 2004 program is completed: new total is 22 kimberlites. 4,213 till samples are collected and a high resolution helicopter-borne airborne EM-magnetic of 33,613 line-km is completed with 690 targets identified.



Kimberlite sample bags get loaded on to a sled before overland transportation to Rankin Inlet, April 2007

**Type 2** kimberlites possess subtle magnetic signatures. The rocks are medium- to coarse-grained with two generations of olivine including macrocrysts, high indicator mineral abundances with high garnet counts and low ilmenite counts with good mineral chemistry. They are associated with a cool geotherm, and have a moderate to high diamond carrying capacity. Four examples of Type 2 kimberlites have been discovered to date: PST003, Jigsaw, Notch and Kahuna. A preliminary dating of the Notch kimberlite puts its age at 232 million years.

Kimberlite vulcanism at Churchill occurred over a period of about 50 million years, much like the prolific Lac de Gras kimberlite field in Canada's Northwest Territories. The diamond-bearing dykes, PST003, Jigsaw, Notch and Kahuna, are the oldest of the kimberlites on the Churchill property. The low diamond-bearing pipes drilled two years earlier are marginally younger.

The fact that the two kimberlite types are relatively close in age means that an opportunity exists to discover a kimberlite blow along a dyke, or a kimberlite pipe. However, the dykes drilled



## Diamond hunt 2005

**FEB. 1**  
Additional federal prospecting permits are acquired bringing the total acreage at Churchill to more than 9 million acres.

**MAR. 7**  
\$5 million exploration program is announced for 2005.

**MAY 5**  
36-person camp is established within the centrally located Josephine River Corridor.

**JUNE 6**  
Shear announces a spin-out transaction whereby the non-diamond

rights at Churchill will be explored by Kaminak Gold Corp.

**JUNE 28**  
Shear drills additional kimberlites bringing the total discovered to 30.

**SEPT. 12**  
New type of kimberlite discovered in float at Josephine River which may represent a high-interest kimberlitic source.



Indicator mineral observers from the Saskatchewan Research Council onsite at the Churchill Project

to date have good length and width along strike and need to be evaluated for economic potential on their own merits.

In 2006, mini bulk samples were collected from the four high-interest kimberlites. The highest sample grade of 2.18 carats per tonne was achieved at the PST003 kimberlite dyke where 7.72 carats of diamonds were recovered from 3.55 tonnes. At Kahuna 3.48 carats were recovered from 3.13 tonnes for a sample grade of 1.11 carats per tonne. These high sample grades (see table on page 10) justify the ongoing aggressive exploration program for 2007, which is currently underway.

The following is a summary of each of the four high-interest kimberlite dykes:

### **PST003 KIMBERLITE**

The PST003 kimberlite is located 2km to the south of Notch within the Sedna Corridor. It is a 0.8m-wide vertical dyke estimated to

trend for 500m based on geophysical interpretation. Six holes from three setups have been drilled into PST003. The largest diamonds recovered so far weigh 0.55, 0.29, 0.17, 0.163 and 0.16 carats. Recent geophysical interpretation has identified a possible southern extension to PST003 trending for 4km to 5km to the southwest.

### **KAHUNA KIMBERLITE**

The Kahuna kimberlite is located within the Josephine River Corridor and is a 3.5m- to 4m-wide vertical kimberlite dyke that trends for more than 5.5km based on geophysical interpretation. Five drill holes from three setups have intersected the Kahuna kimberlite. Trenching has also been conducted at two sites. Among the largest diamonds recovered to date are those weighing 0.27, 0.18 and 0.10 carats. One diamond, reported on January 8, 2007, measures 3.55x2.95x2.90mm and weighs 0.3 carats.

## **2005**

### **OCT. 3**

A clear, octahedron diamond measuring 0.44x0.40x0.36mm, is recovered in beach sands within the Josephine River Corridor.

### **OCT.**

2005 field program completed with 17 new kimberlites discovered bringing the total number of kim-

berlites to 39. In addition, two kimberlite outcrops are located through ground work and prospecting.

### **NOV. 1**

Mineral Services Canada Inc. presents a report using advanced indicator mineral composition techniques to filter the Churchill Diamond Project database. The report states

that "a striking discovery is the fact that the known kimberlites discovered in the last two years did not explain the pyropes in till samples. The unexplained till garnets, which include most G10's recovered to date, are very likely derived from a colder, high-interest geotherm (37mW/m2) than garnets



The four kimberlites at Churchill returned high microdiamond counts per kilogram with excellent size distributions. There was also good macrodiamond representation with a number of stones measuring more than 0.5mm in one dimension.

#### NOTCH KIMBERLITE

The Notch kimberlite is located 15km southwest of Kahuna in the Sedna Corridor and is a 1.5m-wide vertical kimberlite dyke that trends for more than 3km based on geophysical interpretation. Samples have also been collected from Notch North, 1.5km north of the main Notch outcrop. A total of 11 drill-holes from seven setups have been drilled into the Notch kimberlite. The largest diamonds recovered are 0.13, 0.11 and 0.11 carats.

#### JIGSAW KIMBERLITE

The Jigsaw kimberlite is located 20km northwest of Notch near the head of the Sedna Corridor. It is a 1.3m-wide vertical dyke estimated to be 1km in length based on geophysical interpretation. No drilling has been conducted on the Jigsaw trend. The largest diamonds, collected from a surface outcrop, weigh 0.44, 0.16 and 0.14 carats.

Preliminary observation of the diamonds recovered at these four kimberlites describes the majority as clear, colorless to white and dominated by octahedrons with some macles, dodecahedrons and twins.

When a kimberlite is discovered, samples are collected in order to determine microdiamond content. These results are then used

in the known kimberlites." Mineral Services identifies 16 targeted areas that host high-interest garnet populations with above average counts that indicate that the source is likely nearby. The Mineral Services study also concludes that certain indicator mineral dispersions at Churchill are narrow and also of limited length (less than 3km).

#### SUMMER 2005

Dense sampling grid is completed within the Sedna Corridor. Preliminary results show increased total counts of pyropes indicating closer proximity to source. Increased detail enables the targeting of subtle geophysical targets within these areas for the 2006 drill program.



to decide whether further work and a larger sample are justified. The four kimberlites at Churchill returned high microdiamond counts per kilogram with excellent size distributions (see page 10). There was also good macrodiamond representation with a number of stones measuring more than 0.5mm in one dimension.

#### MINERAL CHEMISTRY: THE KEY TO DIAMONDS

Ongoing exploration at Churchill has been driven by the quality and abundance of indicator minerals, specifically pyrope garnets of which approximately 27% are subcalcic G10 pyropes. The pyropes are predominately located within two priority kimberlite indicator mineral corridors: Josephine River and Sedna. A third corridor exists to the north of the Josephine River Corridor but is



## Summary of diamond counts from caustic fusion from drilling and surface outcrops

Kimberlite	Sample Weight (kg)	0.15mm Sieve	0.212mm Sieve	0.3mm Sieve	0.425mm Sieve	0.6 mm Sieve	0.85mm Sieve	1.180 mm Sieve	1.70 mm Sieve	2.36 mm Sieve	Number of Macro Diamonds	Total Diamonds
Kahuna	203.8	369	249	171	75	33	8	3	0	1	75	834
PST003	195.86	672	370	206	74	32	18	3	1	0	83	1,293
Notch	397.6	875	427	197	81	36	14	2	1	0	89	1,544
Jigsaw	327.0	441	260	153	74	25	7	2	0	0	75	903

## Summary of macro diamond grades from mini bulk samples

Kimberlite	Sample Weight Dry (tonnes)	Sample Grade Carats per Tonne (+0.85mm)	Weight of Diamonds Recovered (carats) (+0.85mm)	Number of Stones (+0.85mm)	0.85 mm Sieve	1.18 mm Sieve	1.70 mm Sieve	2.36 mm Sieve	3.35 mm Sieve
PST003	3.55	2.18	7.72	235	127	77	24	6	1
Kahuna	3.13	1.11	3.48	180	132	40	6	2	0
Notch	4.93	0.82	4.03	153	84	54	14	1	0
Notch North	0.5	0.8	0.40	23	15	7	1	0	0
Jigsaw	5.15	0.49	2.53	78	50	18	8	1	1

As reported in news releases dated February 12, 2007 & August 1, 2007 (Tails Audit)

dominated by G9 pyrope garnets. To date only widely spaced till samples have been collected at this third corridor. Grains of eclogitic garnet, chrome diopside, olivine, micro-ilmenite and chromite have also been recovered.

Exploration at Churchill has been focused on finding the source of the property's pyrope garnets, specifically those with high-interest pyrope mineral chemistry. Due to the abundance of kimberlites and related intrusions which are ilmenite and olivine rich, indicator minerals are abundant in almost every sample. The challenge over past years has been to filter out the poor chemistry and to focus on the mineral chemistry that is prospective for diamonds, and to find its source. More recently, there has been success in developing the appropriate filter. In total, there are 40 high-interest mineral trains at Churchill of which the source has been found for four. The hunt continues in 2007 to locate the source of the remaining 36.

## THE 2007 PROGRAM AT CHURCHILL

Larger and more definitive samples of between 100 and 400 tonnes are being collected from four kimberlites - PST003, Jigsaw, Notch and Kahuna - in order to better understand diamond

grade, value and potential tonnage. This will assist in developing a resource model and in any preliminary assessment of the project's economic potential.

A 400-tonne minibulk sample collected from a series of three surface pits at the Kahuna dyke in the spring of 2007 is currently being processed for commercial-sized diamonds (defined as greater than 0.85 mm on a square mesh sieve). This is the first step in collecting a larger parcel of diamonds from Kahuna. Systematic drilling is also underway at regular intervals along the Kahuna kimberlite.

In addition, using what has been learned from recent diamond bearing kimberlites, aggressive exploration drilling is underway in some of the 36 key areas of interest in what is now believed to be an extensive diamond-bearing system on the Churchill property.

## CHURCHILL WEST PROJECT

Shear has a 26.3% interest in the Churchill West Project together with International Samuel Exploration Corp. (48.5%), Stornoway (18.3%) and BHPB (6.9%). A budget of \$400,000 has been proposed for 2007. Two kimberlites have been discovered on the property to date.



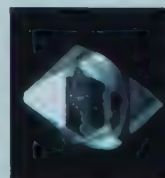
## Breakthrough

2006

FEB. 21

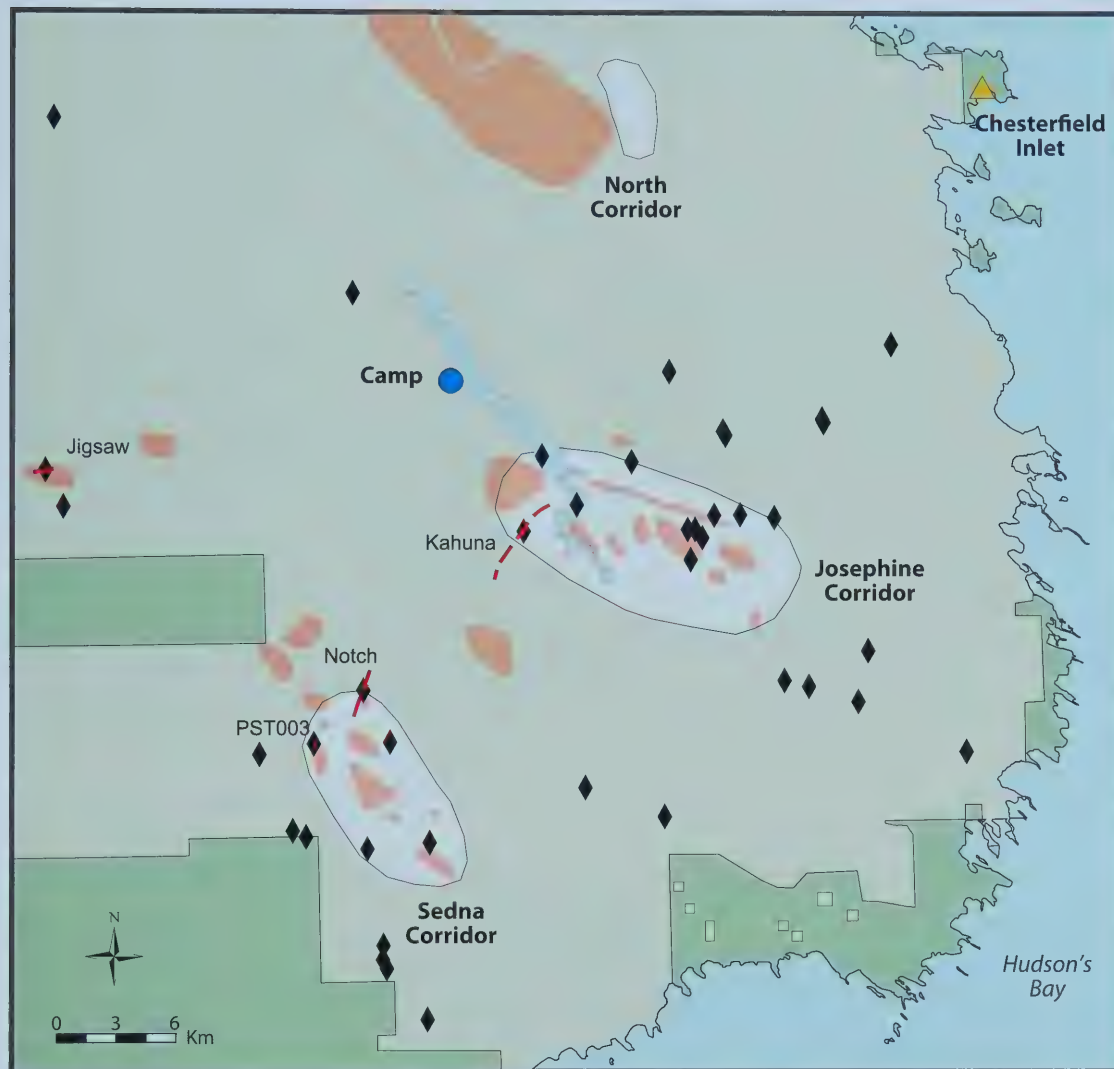
High counts of G10 pyrope garnets and kimberlite fragments are found within a till sample from the Sedna Corridor. The 20kg till sample (Sample 05PST003) is collected near the head of a high-interest kimberlite indicator

mineral dispersion train yielding estimated total grain counts of ~32,500 pyropes, ~11,600 ilmenites and ~7,100 chromites plus additional chrome diopsides and eclogitic garnets. The fragments are confirmed to match another piece of kimberlite float discovered in the nearby Josephine River Corridor.



MAR. 10

Three macro diamonds and 159 microdiamonds are recovered from a 19.9kg till sample from PST003, confirming the new type of kimberlite has the potential to be highly diamond bearing.



- Churchill Property
- Diamond-bearing kimberlite dykes
- G10 Pyrope indicator mineral dispersions
- Kimberlites (outcrop & drilled)

#### JULY 13

New type of kimberlite is successfully drilled at the PST003 anomaly. A total of 303 diamonds, including four macro diamonds, are recovered from a 22.8kg sample from seven drill-holes. Nine kimberlite intersections, averaging 0.75m, are drilled. All seven holes are located at the head of a high-interest G10 indicator mineral

dispersion train measuring 550m wide and 1.2km long within the Sedna Corridor.

#### AUG. 22

Prospecting identifies two new high-interest kimberlite outcrops, Notch and Jigsaw.

Notch is a dyke trending north-south with a width of between 0.7 and 1.0m. Jigsaw, also a dyke, is about 1m in width. A

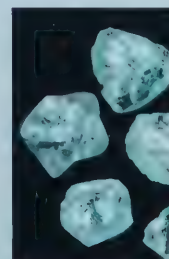
ground magnetic survey identifies a 1.2km magnetic high linear trend and a drill-target is selected where the geophysical signature expands in width to 25m.

#### SEPT. 20

Notch and Jigsaw are confirmed as diamond bearing: 778 diamonds, including seventeen macrodiamonds, are recovered

from a 104.8 kg sample from Notch and 157 diamonds, including seven macrodiamonds, are recovered from a 44.35 kg sample from Jigsaw.

Four surface outcrops of kimberlite are mini bulk sampled. 17.26 tonnes of kimberlite is processed for macrodiamonds from Jigsaw, Notch, PST and Kahuna.



# Environmental Stewardship

The importance of the people and their land



Ministers Olayuk Akesuk, Patlerk Nester and Louis Tapardjuk talk with Shear's Pamela Strand about mineral activity in Nunavut



Pamela Strand gives a camp tour to visiting politicians including Minister Ed Picco and Deputy Premier Levinia Brown

One important aspect of exploring in the North is recognising and respecting the importance of the land, water and wildlife to its people. In the past four years Shear commenced an ongoing baseline water quality monitoring program. In 2005, a temporary camp was constructed at Josephine Lake. Through community consultation Shear was made aware that Josephine Lake was of great importance for char fishing. As a result, Shear worked with the community of Chesterfield Inlet to design and conduct a study incorporating both scientific and traditional knowledge that ensures the continued protection of this important resource. This has been an exciting opportunity. Community members from Rankin

and Chesterfield Inlets helped design the camp and select the camp location. They will also oversee the collection and interpretation of data. Shear is providing training in a range of areas, including water sampling, water quality monitoring, operating a climate station, waste management, fuel storage and spill response. Shear is committed to working with Northerners to minimize the effects of exploring on their land.

In March 2007, Shear was recognized by the Kivalliq Inuit Association when it received an award for its environmental stewardship. Also, in April 2007, Shear received a corporate award from Nunavut Tunngavik Inc. at the annual Nunavut Mining Symposium.



MLA Louis Tapardjuk and Shear's Jennifer Burgess examine kimberlite sample

## Moving forward towards development

### 2007

#### FEB.

Mini bulk sample results are announced from four kimberlite dykes discovered in 2006. PST003 yields 7.24 carats from a 3.55-tonne sample for a sample grade of 2.04 cpt. A 3.13-tonne sample at Kahuna returns 3.4 carats for a sample grade of 1.09 cpt.

At Notch, a 4.93-tonne sample returns 3.4 carats for a sample grade of 0.69 cpt. and a smaller sample of 0.5 tonnes at Notch North yields 0.4 carats producing a sample grade of 0.8 cpt. At Jigsaw, a 5.15-tonne sample yields 1.99 carats for a sample grade of 0.39 cpt. The largest diamond recovered is from PST003 and weighs 0.55 carats. These results were updated in July 2007 following a tailings audit (see table on page 10).



#### APR.

\$8.5 million exploration program is announced for 2007. Shear also acquires an additional stake in Churchill from BHPB raising Shear's interest to 58%.

#### MAY

A 400-tonne mini bulk sample is completed at the Kahuna kimberlite.



Shear field crew  
Anetta Banas, Fred  
Welke and Saz  
Yaqzan at the Stella  
Polaris Project,  
Saskatchewan

## Other Projects

### STELLA POLARIS DIAMOND

**PROJECT > SASKATCHEWAN**  
(SRM 100%)

The Stella Polaris Diamond Project is comprised of 235 mineral claims totaling approximately 741,000 acres located roughly 150km southwest of Regina, on the border with the United States. It is accessible by road year-round. The project was acquired in 2006 on the basis of high counts of coarse-grained kimberlite indicator minerals (up to 1.74mm in size) including significant concentrations of pyrope and eclogitic garnets, chrome diopsides and oxides covering an aerial extent of more than 100km of unglaciated terrain.

In 2006, a total of 6,819 kimberlite indicator minerals were recovered from 25 surface samples: the highest count returned 1,218 picked kimberlite indicator minerals. In general, the samples are dominated by purple pyrope garnets. The highest pyrope count is 817 pyropes, of which 43 grains were in the 2mm to 3mm size fraction. Other indicator minerals include orange garnets, ilmenite, chromite and chrome diopside. The highest indicator mineral abundances are located near the centre of the property and decrease towards the east and west suggesting multiple undiscovered local kimberlite sources.

Shear has an option to earn a 100% interest in the project and is partnered with LynCorp. International Ltd., a private company, whereby LynCorp has the right to earn an undivided 49% interest in the project provided it meets its portion of exploration costs. A review of all existing information is currently being undertaken and follow-up is planned for 2007.

### NORTHERN ALBERTA DIAMOND PROJECTS

**Liege Diamond Project** (SRM HAS OPTION TO EARN 51%)

**Piche Lake Diamond Project** (SRM HAS OPTION TO EARN UP TO 75%)

Located in northern Alberta, the Liege Diamond Project and the Piche Lake Property were acquired in 2005 on the basis of prominent pipe-like targets identified from seismic surveys generated during exploration for oil and gas that are suggestive of kimberlites. Exploration on these projects offers Shear an opportunity to discover new kimberlites within areas of excellent infrastructure that have year-round access.

In 2006, Shear completed airborne geophysical surveys over both projects. At the Liege Diamond Project (155,000 acres) located 360km north of Edmonton, seven prominent pipe-like targets have been identified from seismic surveys and are suggestive of kimberlites. The project area lies 80km immediately east of the Buffalo Head Hills kimberlite cluster. Ground checks were completed at 26 anomalies followed by ground magnetic surveys at 17. As a result, seven priority targets have been chosen for drill-testing scheduled for spring 2008. At the Piche Lake Property (380,000 acres) 170km northeast of Edmonton, a total of 80 anomalies were chosen for ground follow-up, 60 of which were prospected. Two ground geophysical surveys were completed but neither resulted in drill targets.

There are 48 known kimberlites in the Northern Alberta Kimberlite Province. These include the 38 kimberlites discovered by Ashton Mining of Canada within the Buffalo Head Hills Field and nine kimberlites in the Birch Mountains which are in close proximity to the Liege Diamond Project.

## THE AYLMEYER-AFRIDI GROUP

**OF PROPERTIES >** SLAVE GEOLOGICAL PROVINCE,  
NORTHWEST TERRITORIES

### Afridi Lake Project

(SRM 58.2%, SAZ 25.4%, MT 8.2%, NW 8.2%)

The Aylmer-Afridi group of properties is comprised of two advanced-stage projects located in the Lac de Gras diamond district region of the Northwest Territories. In total these projects cover more than 100,000 acres of mineral claims and leases located approximately 40km east of the Diavik Diamond Mine and approximately 320km northeast of Yellowknife. There are seven known kimberlites on the properties: Nicholas Bay, Nic2, DA-1, DA-2, DA-3, DA-2SW and the Jordan kimberlites.

Shear has been exploring this region since 2000 and has consolidated its ownership and land position over the past few years. At present Shear controls and operates both projects. Both offer an opportunity to discovery new kimberlites and to further evaluate those already discovered. The Lac de Gras region is currently experiencing a third generation of diamond exploration.

Shear and its partners have been systematically advancing these projects, by bringing them to the point where drill-targets can be tested. At present, there are more than 100 geophysical targets, some of which have been covered by ground geophysics and are drill-ready. Going forward Shear will focus on EM and magnetic methods and in 2007 will complete a high resolution airborne gravity survey aimed at showing density contrast between kimberlites and the surrounding rock. Targets will be re-ranked using this data, prospected and checked using ground geophysics. The 2007 exploration program has a budget of \$1.2 million.

## XYZ PROJECT > NORTHWEST TERRITORIES

(SRM 80%; HUNTER EXPLORATION 20%)

The XYZ Project is composed of more than 19,000 acres of mineral claims located along the northwest boundary of the Ekati™ Diamond Mine and 225km northeast of Yellowknife. The project is host to a high concentration of G10 garnets. A 5 kg unconcentrated sample yielded 15,500 pyrope garnets (29% of which were G10's, 10,000 microilmenites and 1,000 olivines), and three diamonds (the largest measuring 0.44x0.42x0.212 mm) from a 194 kg beach sand sample. Since then, Shear has completed airborne geophysics, sampling and ground geophysics and drilling. No kimberlite has been intersected.

The source of the indicator minerals being found on surface

remains unknown but Shear believes it to be local. Shear is presently re-interpreting all data before follow-up on the remaining geophysical targets.

## HECLA DIAMOND PROJECT > NWT

(SHEAR 100%)

The 100%-owned Hecla Diamond Project is comprised of 465,000 acres of federal prospecting permits located on Melville Island. The project was acquired based on a conceptual idea and the identification from air photos and satellite imagery of more

than 15 features in two locales suggestive of kimberlitic intrusives. The features are circular in shape and range in diameter up to 200 metres. The host rocks are flat lying sediments which makes these features prominent and similar to known kimberlites on both Somerset Island and the Brodeur Peninsula.

A site visit was completed in 2005 although the features of interest were not accessible due to snow cover as a result of the short summer season. A visit is planned for the summer of 2007, weather permitting.

## SAKARI PROJECT > NUNAVUT

(SRM 50%; DDN 50%)

In August 2006, Shear entered into an agreement with Diamonds North to explore the Sakari Project in the Pelly Bay Diamond District of Nunavut.

To date, minimal work has been completed on the project with the exception of wide-spaced till sampling that resulted in the recovery of kimberlite indicator minerals. A \$185,000 program is underway in 2007 and includes airborne geophysics, detailed ground geophysics and follow-up

drilling. Preliminary targets suggestive of kimberlites have been identified on the property and the companies believe these could be part of the diamondiferous Franklin kimberlite field.

The Pelly Bay region of Nunavut has emerged as Canada's newest diamond district. Recent kimberlite discoveries on Diamonds North's Amaruk project have yielded very encouraging diamond counts and excellent diamond characteristics. More recent kimberlite discoveries in the region at the Darby Project confirm the existence of larger kimberlite bodies and the presence of multiple kimberlite fields. The Sakari property is located adjacent to the Darby project.

## CRYSTAL PROJECT > MICHIGAN, U.S.

(SRM 100%)

Shear has acquired mineral rights in the state of Michigan based on positive results from diamond indicator mineral sampling and prospecting over the past two years. The Crystal Project is currently an early-stage regional initiative.



Shear geologists examine indicator mineral bearing sediments at the Stella Polaris project

**PAMELA D. STRAND, M.SC., P.GEOL. –**

PRESIDENT, CHIEF EXECUTIVE OFFICER AND DIRECTOR

Ms. Strand has been the President and CEO of the Company since 1997. Since 1988, Ms. Strand has been employed as a geologist in the exploration and mining industry. This has included work as a District Geologist for the Department of Indian Affairs and Northern Development, and as an exploration geologist for Miramar Mining Corporation, Homestake Mineral and Development and Noble Peak Resources Ltd. She is a Professional Geologist with APEGGA and NAPEGG, a Director of the NWT and Nunavut Chamber of Mines, past President of the Edmonton Geological Society and a volunteer for the Student Outreach Program for APEGGA. Ms. Strand is also currently a director on several private and public companies. Ms. Strand has a B.Sc. from the University of Toronto and a M.Sc. in Economic Geology from the University of Western Ontario.

**DON PLANCHE – VICE PRESIDENT AND DIRECTOR**

Mr. Planche is a Calgary-based businessman who has, since 1989, been the President of Flagship Investments Ltd., which has significant investments in mineral exploration, oil and gas, agriculture, land and various other industries. He is also the President of Accu-Ram West Inc. and a director of several private companies.

**DAVID MULLEN – DIRECTOR**

Mr. Mullen is a director of Copper Fox Metals Inc. (CUU:TSXV) and Chairman of Cordy Oilfield Services (TSX Venture Listed). Most recently he was Senior Vice President of Mullen Group Income Fund (TSX Listed) and Vice President of Mullen Trucking LP - Truckload Division. Since 1978, Mr. Mullen has served in various marketing and operating capacities with Mullen Trucking LP and he was instrumental in the development of the Truckload Division. Mr. Mullen is involved in mineral exploration as a director and shareholder of Shulin Lake Mining Inc. and he has other mineral interests in North America.

**FRANK AGAR – DIRECTOR**

Mr. Agar obtained a Bachelor of Science Degree in Geological Engineering from the University of Saskatchewan in 1952 and has more than 50 years experience in the oil and gas, mining, and financial industries. As the President of Mineral Resources International Ltd. and Nanisivik Mines Ltd., he was instrumental in the financing, development, and operation of the Nanisivik zinc, lead, and silver mine at the north end of Baffin Island. He is currently a director of Copper Fox Metals Inc (TSX Venture Listed) and Frontier Canada Ltd.

**NORMAN EATON, MBA – CHIEF FINANCIAL OFFICER**

Mr. Eaton holds a Bachelor of Arts from the University of Victoria and a Master of Business Administration from the University of Western Ontario. Most recently he was the CFO of Grizzly Diamonds Ltd., where he supervised the initial public offering and public listing of Grizzly Diamonds in 2004.

**GREG HAYES, CA – ACCOUNTING**

Mr. Hayes is a graduate of the University of Alberta, and obtained his Chartered Accountant designation in 1997. Since that time he has worked for both an international and Edmonton-based accounting firm, servicing clients ranging from small private businesses to large multinational and public corporations. He has also held the position of Controller at a small publicly listed software company and at a privately held manufacturing company.

**JENNIFER BURGESS, P. GEOL. – PROJECT GEOLOGIST**

As the principal of Burgess Diamonds, Ms. Burgess specializes in kimberlite exploration and the evaluation of diamond deposits. Most recently, she was the project geologist for Diamonds North Resources Ltd. on Victoria Island, Nunavut. Prior to that, she spent eight years working for Kennecott Canada on the Diavik Diamond Project in the Northwest Territories, following the project through advanced exploration, feasibility studies, and ultimately into diamond production. Ms. Burgess's specialized training within the Rio Tinto group included secondments to its Argyle diamond mine in Western Australia, South Africa and the diamond sorting center in Antwerp. Ms. Burgess received a B.Sc. Honors from Queens University in Kingston, Ontario.

**GERALD PROSALENDIS – CORPORATE CONSULTANT**

Mr. Prosalendis is a corporate consultant who specializes in financial markets, corporate development, shareholder relations and the media. He was Vice President Corporate Development of Western Silver Corporation and was involved in the successful sale of the company in 2006 to Glamis Gold Ltd. for \$1.6 billion. Previous to that, he was Vice President Corporate Development of Dia Met Minerals Ltd. and was a member of the team that developed the Ekati Diamond Mine. He was involved in initiating the marketing campaign for Ekati diamonds and the sale of Dia Met to BHP Billiton for \$687 million in 2001. Mr. Prosalendis has been a consultant to Anderson & Schwab Inc., a mineral and business firm based in New York, a Senior Counselor with James Hoggan & Associates of Vancouver, an advisor to public and private companies and Business Editor of The Vancouver Sun. He also worked as a financial services analyst for a brokerage firm.

**CHRISTOPHER (KIT) CAMPBELL, P.GEO.**

INTREPID GEOPHYSICS LTD. - PROJECT GEOPHYSICIST

Mr. Campbell's professional life encompasses more than thirty years of diverse experience in all facets of airborne and ground geophysics. He has directed many projects throughout Canada, the U.S., Mexico, Australia, southern Africa, Russia and the Middle East. Mr. Campbell specializes in project management of new data acquisition, real-time (including on-site) quality control of data acquisition and field verification, overall processing and presentation of exploration data sets, as well as fully integrated solid geologic mapping and structural interpretations.



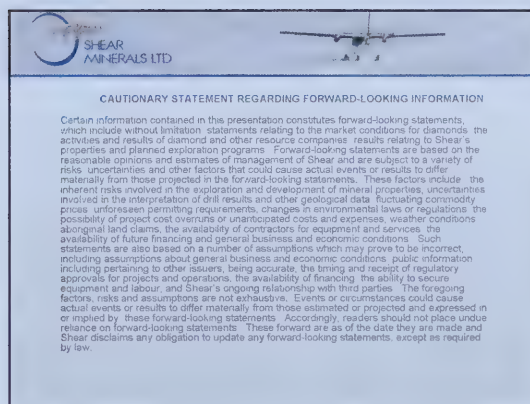
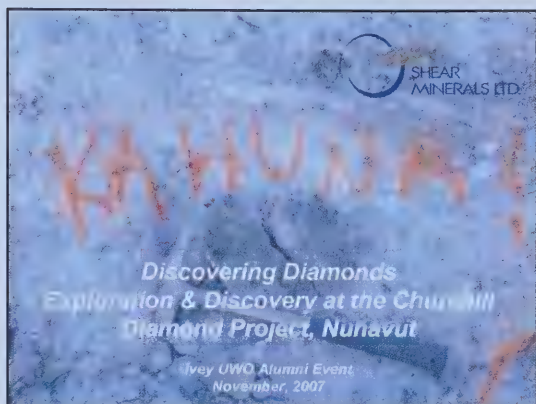




Suite 200, 9797 - 45 Ave.  
Edmonton, Alberta  
Canada T6E 5V8

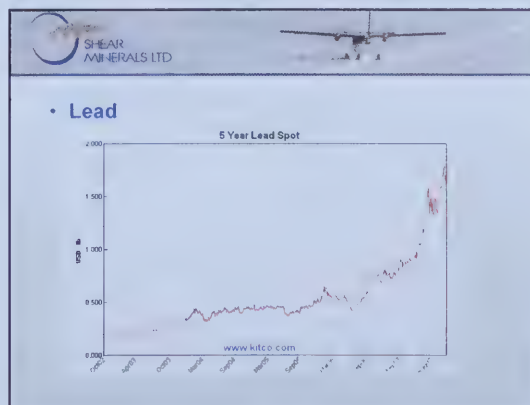
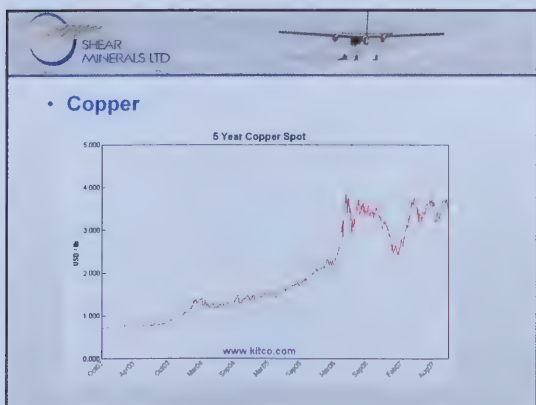
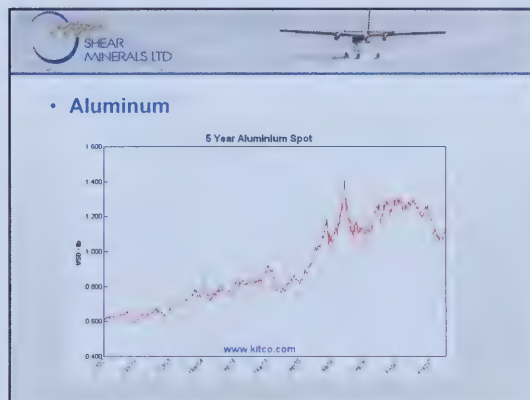
Telephone: 780-435-0045  
Fax: 780-989-0322  
Toll Free: 1-866-298-9695

[www.shearminerals.com](http://www.shearminerals.com)

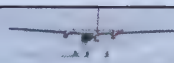


### Commodities

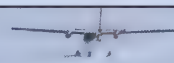
- Most mineral commodities have experienced strong increases in the last five years
  - Demand from BRIC countries continues to be strong
    - Brazil, Russia, India, China
  - New supply is difficult to provide
    - Large deposits are difficult to discover and often take a few years to bring into production
  - Historical charts for metals, companies
  - Details on diamond demand and supply







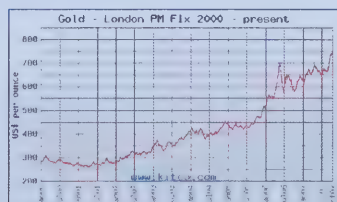
• Nickel



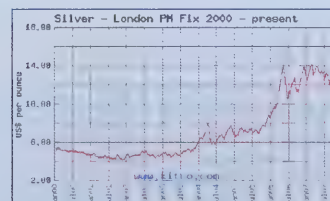
• Zinc



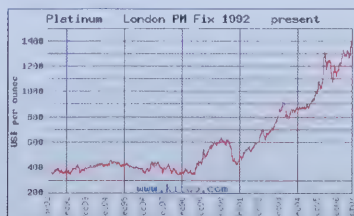
• Gold (7 year)



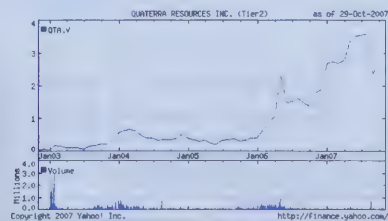
• Silver (7 year)



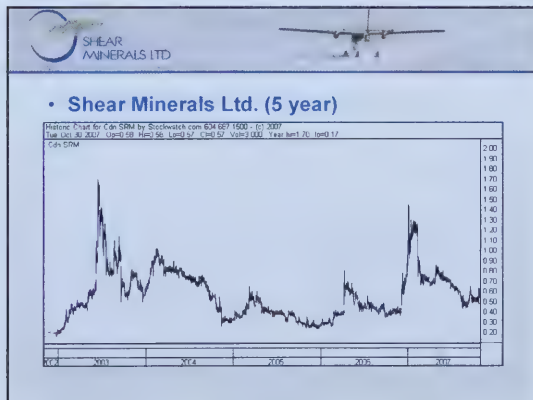
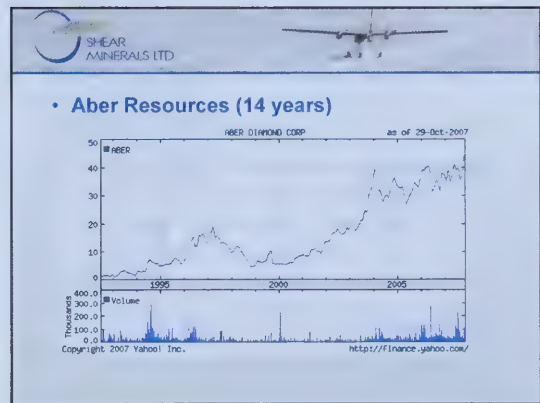
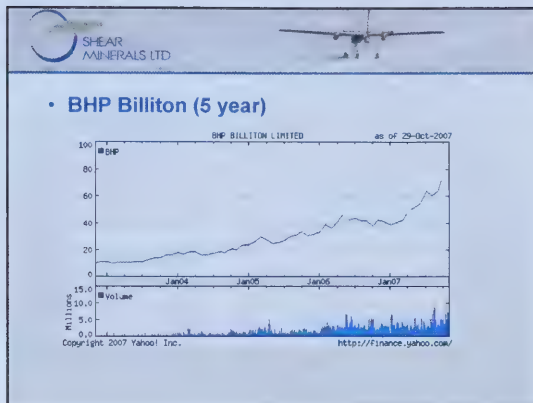
• Platinum (15 year)



• Quaterra Resources (5 year)







## Mineral Exploration Incentives In Canada

- "Flow Through Shares" (FTS): Government of Canada incentive for two decades.
  - Allows investors to deduct 100% of eligible expenses from taxable income for income tax purposes
  - Only applies to mineral and energy sectors. "Grass roots" exploration only
- Investment Tax Credit for Exploration in Canada (ITCE): Since 2000 due to downturn. "Super Flow Through Shares"
  - Supplements FTS
  - Comprises a 15% non-refundable federal tax credit Reduces tax payable
  - Carried back 3 years and forward 10 years.
  - Does not apply to oil & gas or oil sands. "Super Flow Through Shares"
- Additional Provincial Incentives: BC, ON, SK, MB have introduced harmonized tax programs to complement federal programs
- Net after tax Cost of a \$1,000 investment can be as low as \$251-\$519

## Why Canada?

More money is spent exploring for diamonds in Canada than anywhere else in the world



- Product
  - High Quality Gems (Colour, Clarity, Size)
  - High Value/Carat
  - High Grade
  - Highly Workable
- Investment Climate
  - Politically Stable
  - Legal Certainty
  - 1<sup>st</sup> World Country and Standards

**Canada is the ranked fourth in the world for producers of gem quality diamonds (12% by value) after Botswana, Russia and South Africa**



## Diamond Mining Economics



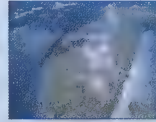
### • Ekati: One of the most profitable mining ventures in Canadian history

- Operator: BHP Billiton (80%)
- Production: 3-5m carats/year for 20 years
- Total Revenue US \$8 bn
- Cash Margin: >40%
- 4 year payback of \$1bn capital costs
- BHPB purchased DiaMet for \$CAD 687M

### • Diavik: Production in 2003

- Operator: RTZ (60%)
- Production: 7m carats/year for 20 years
- Total Revenue: >US \$7.5 bn
- Cash Margin: >30%

## Diamond Mining Economics



### • Jericho: Nunavut's 1st Diamond Mine

- Operator: Tahera Corp (100%)
- Production: 3.1m carats over 8 yrs
- Capital Costs >\$128 Million

### • Snap Lake: Commences in 2008

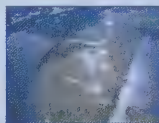
- Operator: DeBeers (100%)
- Production: 2.5m carats/year for first 7 yrs
- Total Revenue: >US \$6bn
- Cash Margin >20%
- DeBeers purchased for US\$354 Million

Plus additional advanced diamond projects in ON (Victor), SK (Fort a la Corne), Quebec (Renard), Alberta (Buffalo Head Hills)



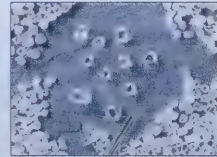
## Diamond mining operations

- Small area of operation
- Unlike metal mines, no chemicals used to mine diamonds
- Temporary use of land and easily restored



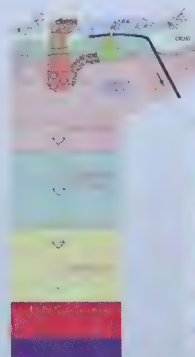
## What is Diamond?

- From the greek word "adamas" meaning "invincible"
- "C" = carbon (6 on the periodic Table).
- The most common form of solid carbon is graphite. Diamonds will burn at 800 degrees C with oxygen.
- The Hardest known natural material
- Vulnerable to breakage even with its hardness
- Rare and difficult to find



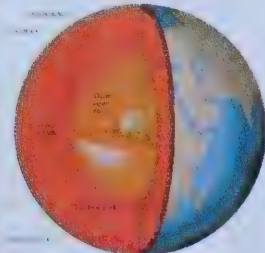
## How Does a Diamond Form?

- Diamond form with prolonged high pressure and temperatures.
- Only place this can occur is in regions deep within the Earth at least 150km down
- Brought to the surface of the Earth by a diamond bearing volcanic rock called kimberlite – acts as an elevator.



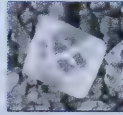
Source: T. Stachet

## Diamond Source Regions



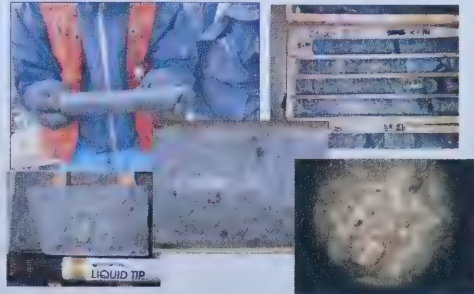


## How Do They Get To The Surface? Kimberlite Pipes and Dykes

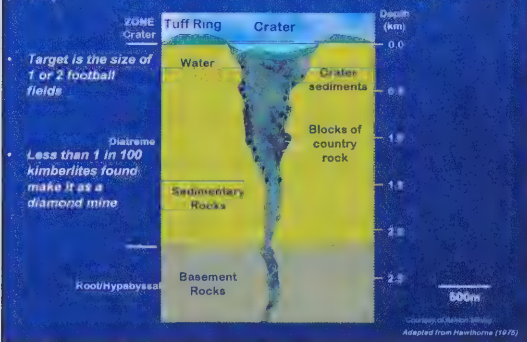


A perfect octahedral rough diamond

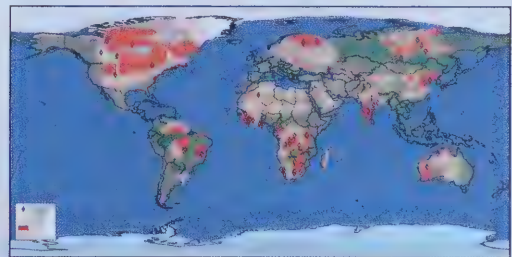
## Kimberlites – what they look like...



## Idealized Kimberlite Pipe



## Where Are Diamonds Found Around the World?



## 1981 – N. American Diamond Exploration

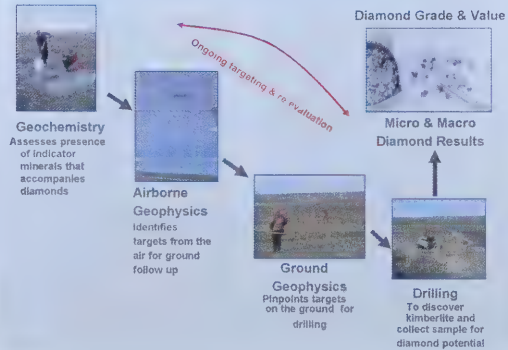


## North American Diamond Exploration





## Integrated Diamond Exploration



## Investor Check List for Diamonds

- Ownership & Land Status
- Location – on craton in favorable rocks?
- Indicator minerals with favorable chemistry?
- Geophysics – top ranked anomalies?
- Kimberlites & Diamonds
  - microdiamond counts and initial quality of the diamonds?
  - sample grade (carats per tonne) of macrodiamonds
  - tonnage potential
  - value of diamond parcel \$US per carat
- News flow and plan moving forward



## Project Ownership: Churchill Diamond Project

- 58.14% Shear Minerals Ltd. (Operator)
- 41.86 % Stornoway Diamond Corporation

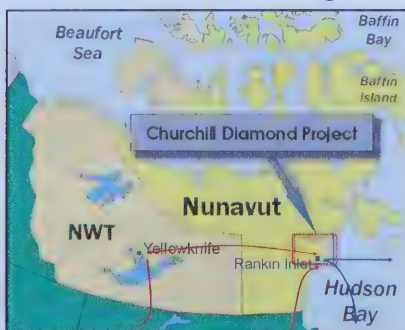


## Land Status & Mineral Rights



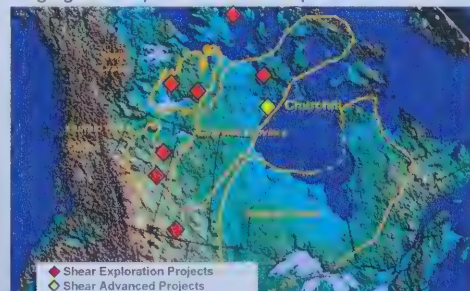
2.0 Million acres of diamond rights: claims, prospecting permits and Inuit Owned Land Agreements. Started with 7 Million Acres.

## Different Jurisdictional Regulations



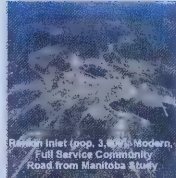
## Location: on Craton?

Shear's Portfolio of Diamond Exploration Projects : ranging from exploration to development.

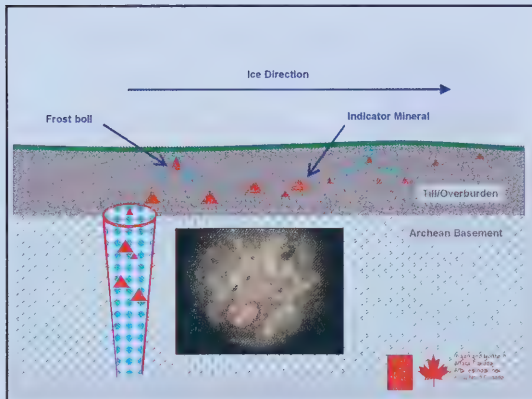




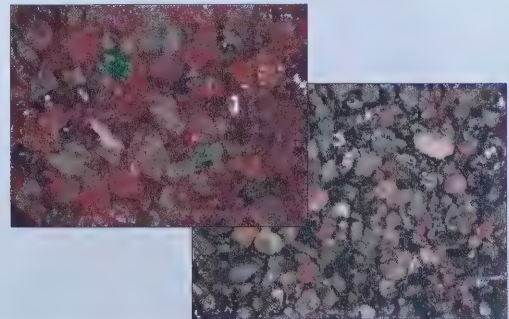
## Infrastructure : Churchill Project



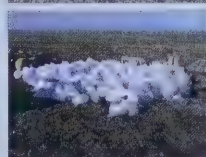
## Logistics & Transportation



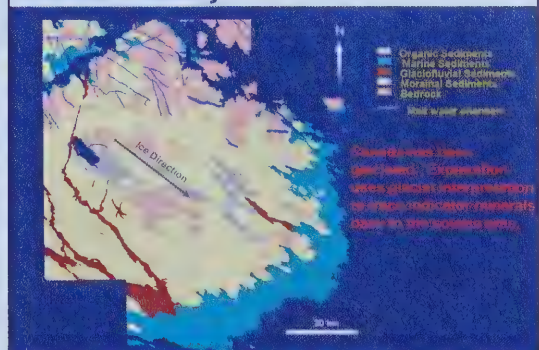
## Kimberlite Indicator Minerals



## Surface Sampling



## Glacial History

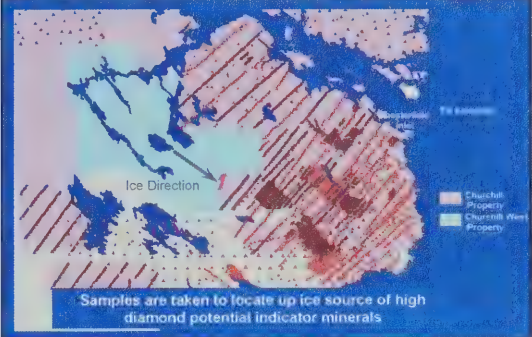




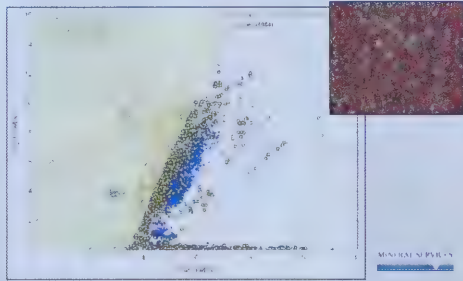
## Quaternary Mapping



## Surface Till Samples



## Churchill Pyrope Mineral Chemistry



>28% of all regional pyropes are G10  
An abundance of G10's is a good indication of diamond potential

## Prospecting – Kimberlite Float

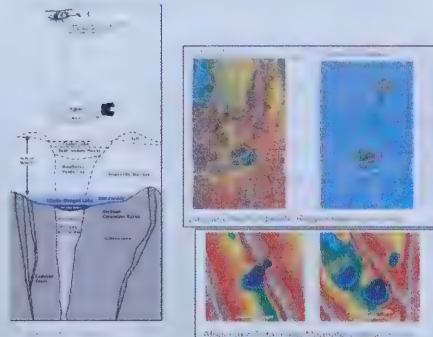


Prospecting locates kimberlite at the surface and enables low cost sample collection

## Trenching Kimberlites for samples

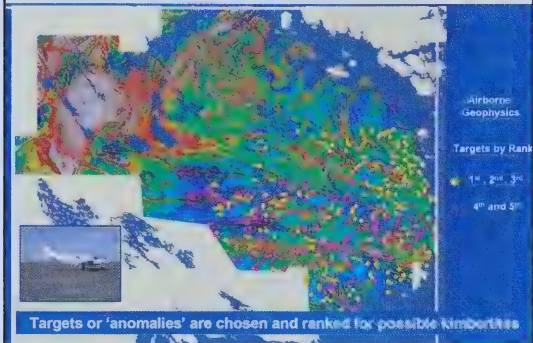


## Geophysical Techniques





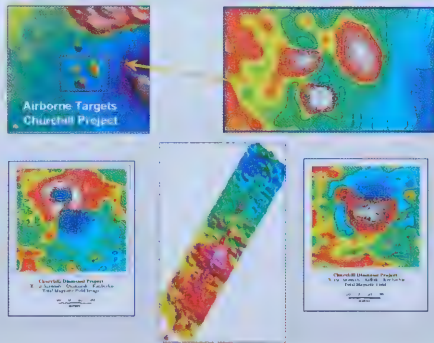
## Airborne Geophysics



## Ground Geophysics



Ground geophysical surveys on targets locate sites for drill testing



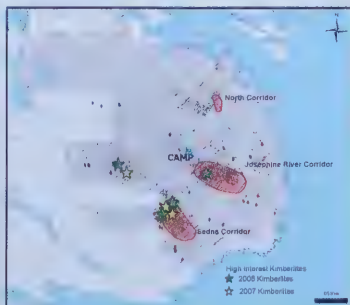
## Core Drilling to Test for Kimberlite

Core Drilling at the Churchill Diamond Project



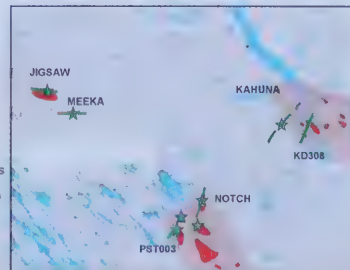
## Churchill Kimberlite Discoveries

- Conceptual idea in 2001.
- Systematic exploration with > \$32 Million in data
- >11,000 surface samples outline three high interest corridors
- 79 kimberlites discovered (including 31 in 2007)
- Four highly bearing kimberlites discovered in 2006; an additional four in 2007
- 15 unsorted high diamond potential G10 indicator mineral trains.



## Extensive Diamond Bearing Kimberlite Dyke System

- Seven kimberlite dykes
- Land Based
- 20 km from tide water
- Near vertical dips
- Up to 4m wide and up to >6km in length based on geophysics
- High Grade: 1.11 & 2.18 ct/tonne sample grades
- Three new discoveries in 2007
- Blow along KD308







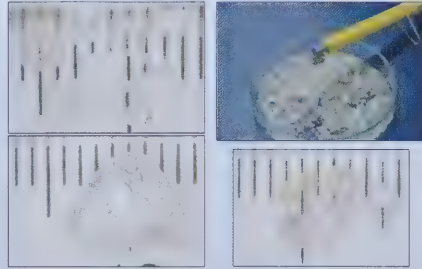


## Mini Bulk Sampling at Churchill



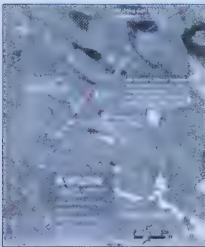
## Churchill: Initial Results Confirm Commercial Sized Diamond Population

93.54 carats recovered from 106 tonne first sample at Kahuna



With larger samples the objective is to collect a representative package of diamonds for valuation.

## Tonnage Potential?



- How much tonnage could be in a kimberlite dyke? For example: 4m x 3.5km x 500m dyke = 16.8 Million Tonnes.

- How does this compare to other northern diamond resources?

Jericho 7Mt @ 0.86 cpt  
Snap Lake 22.8 Mt @ 1.46cpt  
DIAVIK 28.1Mt @ 3.21 cpt  
Gahcho Kue 31.4 Mt @ 1.48 cpt  
EKATI 46.8 Mt @ 0.69 cpt

(Source: Intierra Map March 2007)

Regular spaced drill holes along the strike length of a kimberlite to confirm geometry and start a tonnage model.

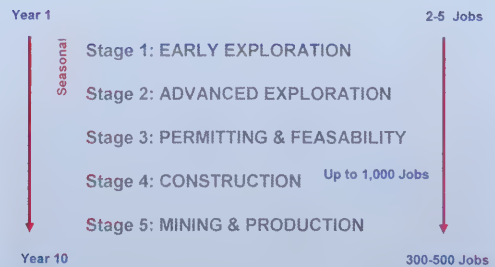
## Environment: Water, Wildlife, Weather



## Community Involvement



## Stages of Exploration & Jobs







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## Management Discussion & Analysis

November 30, 2006

## Consolidated Financial Statements

November 30, 2006 and 2005

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### GENERAL

This management discussion and analysis ("MD&A") supplements, but does not form part of, the consolidated financial statements and notes for the year ended November 30, 2006. The following information, prepared as of March 15, 2007, should be read in conjunction with those statements, which have been prepared in accordance with Canadian generally accepted accounting principles ("GAAP"). All amounts have been expressed in Canadian dollars unless otherwise indicated. Additional information related to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

### FORWARD-LOOKING INFORMATION

The following MD&A is management's assessment of the Company's operations and financial results, together with future prospects. Certain statements contained in the following MD&A are considered forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the performance and actual results of the Company to be materially different from any future results expressed or implied.

### DESCRIPTION OF BUSINESS

Shear Minerals Ltd. ("Shear" or the "Company") is an exploration stage company focussed on diamond exploration. The Company acquires and explores mineral properties located primarily in the Northwest and Nunavut Territories, Alberta, Saskatchewan and Alaska. The Company is a reporting issuer in Alberta and British Columbia and trades on the TSX Venture Exchange under the symbol SRM.

### SUMMARY OF ANNUAL AND QUARTERLY RESULTS

The following table sets out selected annual financial information of Shear. Shear's annual financial statements are prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

Period	Revenues (\$)	Net Loss (\$)	Basic Loss per Share (\$)	Total Assets (\$)
Year ended November 30, 2006	201,649	686,426	0.011	17,266,442
Year ended November 30, 2005	182,596	711,861	0.013	14,863,314
Year ended November 30, 2004	171,532	1,264,781	0.026	17,289,436

The following table sets out selected unaudited quarterly financial information of Shear and is derived from unaudited quarterly financial statements prepared by management. Shear's interim financial statements are prepared in accordance with Canadian generally accepted accounting principles and are expressed in Canadian dollars.

Period	Revenues (\$)	Net Loss (\$)	Mineral Property Expenditures (\$)	Basic Loss per Share (\$)
Three months ended November 30, 2006	57,884	425,144	541,791	0.008
Three months ended August 31, 2006	62,066	83,816	909,363	0.001
Three months ended May 31, 2006	59,852	75,480	288,061	0.001
Three months ended February 28, 2006	21,847	101,986	523,973	0.002
Three months ended November 30, 2005	32,023	282,884	861,469	0.005
Three months ended August 31, 2005	61,084	88,836	1,456,441	0.002
Three months ended May 31, 2005	40,268	155,011	1,007,141	0.003
Three months ended February 28, 2005	49,221	185,130	769,227	0.003

The Company's revenues are derived mainly from interest on deposits and short-term investments and management fees charged to joint venture partners. These items fluctuate from quarter to quarter and year to year depending on the amount of property work being done and our outstanding investment balance, but have remained fairly consistent overall during the past two years. The Company is in the exploration stage and has no revenue from mining operations. The variations in the net loss from year to year are primarily due to non-cash items such as mineral property write downs net of future income tax recoveries, write-downs and recoveries of short-term investments, and share based compensation.

## RESULTS OF OPERATIONS

### *For the year ended November 30, 2006*

Shear incurred a net loss of \$686,426 for the year ended November 30, comparable to a net loss of \$711,861 the prior year.

The Company's administrative costs were \$729,428 for the year ended November 30, 2006 which was consistent with \$729,924 for the year ended November 30, 2005.

General and administrative expenses totalled \$392,761 for the year ended November 30, 2006, an increase of \$44,055 from the prior year. General and administrative expenses consisted of corporate travel and tradeshow of \$85,224 (2005 - \$75,253), office expenses of \$108,253 (2005 - \$97,722), payroll of \$80,615 (2005 - \$49,834), shareholder communications and promotion of \$78,479 (2005 - \$87,134), regulatory and transfer fees of \$35,089 (2005 - \$26,951), and other expenses of \$5,101 (2005 - \$11,812). The increase in payroll expenses was due to increased time spent by geologists on exploration project planning.

In the year ended November 30, 2006, the Company also incurred management fees of \$124,500 (2005 - \$195,225), professional fees of \$117,455 (2005 - \$80,454), consulting fees of \$68,644 (2005 - \$83,394), and amortization of \$26,068 (2005 - \$22,049). The decrease in management fees and consulting fees is primarily due to share based compensation of \$102,225, and \$16,325 respectively in year ended November 30, 2005 compared to \$nil charged in the year ended November 30, 2006. The increase in professional fees was due to increased share based compensation, higher audit costs, and additional time needed to comply with regulatory requirements.

### *For the three months ended November 30, 2006*

Shear incurred a net loss of \$425,144 (2005 - \$282,884) for the three months ended November 30, 2006, an increase of \$142,260 from the prior year. This increase is due to the write down of mineral properties, being higher by \$710,997 in the current period. Partially offsetting this was a recovery of future income tax of \$695,107 in the three months ended November 30, 2006, versus a recovery of future income tax of \$57,365 in the quarter ended November 30, 2005, a net change of \$637,742 between the periods.

The Company's administrative costs were \$309,023 for the three months ended November 30, 2006 compared to \$178,878 for the three months ended November 30, 2005.

General and administrative expenses totalled \$160,268 for the three months ended November 30, 2006, an increase of \$84,857 from the comparative quarter. General and administrative expenses consisted of corporate travel and tradeshow of \$30,904 (2005 - \$12,675), office expenses of \$37,726 (2005 - \$28,917), payroll of \$33,735 (2005 - \$15,917), shareholder communications and promotion of \$38,535 (2005 - \$10,801), regulatory and transfer fees of \$18,115 (2005 - \$5,536), and other expenses of \$1,253 (2005 - \$1,565). The increase in shareholder communications and promotion was due to incurring annual report printing expenses in the fourth quarter of 2006 compared with 2005 when this expense was incurred in the third quarter.

In the three months ended November 30, 2006, the Company also incurred management fees of \$57,500 (2005 - \$31,000), professional fees of \$63,259 (2005 - \$46,301), consulting fees of \$21,244 (2005 - \$15,000), and amortization of \$6,752 (2005 - \$11,070). The increase in management fees is primarily due to the board of directors awarding higher management bonuses in 2006.

## LIQUIDITY AND SOLVENCY

The Company has no operating revenue to date and relies upon the proceeds of equity financings to support its mineral property acquisition and exploration projects and to provide working capital. The Company had working capital of \$2,765,527 as at November 30, 2006 as compared with \$1,314,946 as at November 30, 2005.

On May 19, 2006, the Company closed a non-brokered private placement of 1,228,500 units ("Units") at a price of \$0.65 per Unit and 3,073,500 flow-through common shares at a price of \$0.70 per flow-through share for gross proceeds of \$2,949,975. Each Unit consisted of one common share and one-half of a non-transferable share purchase warrant. Each whole warrant entitles the holder to acquire an additional common share at a price of \$0.80 at any time within 18 months of issuance. In connection with the private placement, the Company issued non-transferable share purchase warrants to acquire 284,676 common shares. The warrants are exercisable at a price of \$0.65 at anytime within 18 months of issuance. Related to this, the Company recorded share-based compensation in the amount of \$45,548 as a share issue cost.

On December 30, 2005, the Company raised funds totalling \$1,449,799 through a non-brokered private placement of 4,832,664 flow-through common shares. In connection with the private placement, the Company issued non-transferable share purchase warrants to acquire an aggregate of 318,441 common shares of Shear. The warrants are exercisable at a price of \$0.30 within one year of issuance and the Company recorded share based compensation in the amount of \$25,475 as a share issue cost.

Management may raise additional capital through equity financings to continue to meet its corporate and exploration commitments over the next year. The Company also has outstanding share options and warrants that if exercised, would result in additional cash proceeds to support corporate activity. Actual funding requirements may vary from those planned due to a number of factors, including the progress of exploration activity and the viability of equity markets.

### RELATED PARTY TRANSACTIONS

During the year ended November 30, 2006, the Company incurred management fees of \$124,500 (2005 - \$119,100) to Encore Resources Inc., a company in which certain directors and officers of the Company have significant influence. In the opinion of management, these fees are considered to be at market value.

Shear Minerals Ltd. is currently a non-participating partner in a joint venture at the Shulin Lake Property. One of the partners is Shulin Lake Mining, a private company in which a director of Shear Minerals Ltd. has a 50% ownership position.

Shear entered into an agreement with Lyncorp International Ltd. ("Lyncorp"), a private Alberta company owned by a director of Shear, whereby Lyncorp agreed to fund \$250,000 in exploration expenditures or acquisition costs on the Stella Polaris Property within one year to earn an undivided 49% interest in the Property.

### DISCLOSURE OF OUTSTANDING SHARE DATA

As at March 15, 2007, Shear had 66,603,726 common shares outstanding. The following table provides a summary of Shear's share options and warrants outstanding at March 15, 2007:

Security	Number	Exercise Price (\$)	Expiry Date
Share options	734,000	0.26	February 4, 2008
Share options	1,525,000	0.84	September 8, 2008
Share options	530,000	0.83	February 2, 2009
Share options	50,000	0.75	September 3, 2009
Share options	1,325,000	0.40	February 22, 2010
Share options	50,000	0.41	May 3, 2010
Share options	300,000	0.60	April 12, 2011
Warrants	589,250	0.80	September 20, 2007
Warrants	273,476	0.65	September 20, 2007

### MINERAL PROPERTIES

During the year ended November 30, 2006, cash expenditures on exploration and acquisition of the Company's mineral properties totalled \$2,263,188 compared to \$4,094,278 in the year ended November 30, 2005. In 2006, approximately 81% (2005 - 85%) of the Company's exploration budget was spent on the Churchill Diamond Project.

#### 1. CHURCHILL DIAMOND, Nunavut

The Churchill Diamond Project ("Churchill") is composed of mineral rights to approximately 2.0 million acres near the community of Rankin Inlet in the Kivalliq region of Nunavut. This project is a new and expanding kimberlite district which Shear and its partners discovered in 2003. To date a total of 51 kimberlites (includes 2 on the Churchill West Diamond Property) including six kimberlite outcrops have been discovered on the property over an area of approximately 60km by 60km. Shear has a 51.88% interest in the project and is the operator. Stornoway Diamond Corp. and BHP Billiton Diamonds Inc. ("BHP Billiton") have 35.62% and 12.50% interests respectively. The property is subject to a 2.0% gross overriding royalty and net smelter royalty in favour of the Hunter Exploration Group ("Hunter") with respect to the commercial production of diamonds. 100% of all non diamond rights are held by Kaminak Gold Corp.

On March 27, 2006 BHP Billiton informed Shear of their intention not to participate in the 2006 Churchill and Churchill West exploration programs and to allow BHP Billiton's interest in the two projects to dilute accordingly.

On May 30, 2003, the Company entered into an agreement with BHP Billiton whereby BHP Billiton will fund the entire cost to collect, sample and process the initial 200 tonnes of kimberlitic material from the Churchill Property and sign a standstill agreement for a four year period whereby BHP Billiton is prohibited from participating in a takeover bid, merger, or acquisition of more than 10% of the voting securities of Shear.

In 2006, extensive exploration totalling \$4.5 million including mini-bulk sampling was carried out in the areas where kimberlite dykes were discovered. In February 2007, the Company announced the recovery of 585 diamonds greater than 0.85mm yielding 16.42 carats from a cumulative 17.26 dry tonne sample from four spatially separate kimberlite dykes on the Churchill Project.

The PST003 kimberlite yielded 7.24 carats from a 3.55-tonne sample, resulting in a sample grade of 2.04 carats per tonne (cpt). A 3.13-tonne sample at the Kahuna kimberlite returned 3.4 carats, producing a sample grade of 1.09 cpt. At Notch, a 4.93-tonne sample returned 3.4 carats resulting in a sample grade of 0.69 cpt. and a smaller sample of 0.5 tonnes at Notch North yielded 0.4 carats producing a sample grade 0.8 cpt. At Jigsaw, a 5.15-tonne sample yielded 1.99 carats resulting in a sample grade of 0.39 cpt. All calculations are based on diamond weights from stones found on the 0.85mm sieve size or larger.

The three largest diamonds from PST003 measured 5.1x4.4x2.8mm (0.55 carats), 5.6x4.6x2.2mm (0.29 carats), and 3.7x2.84x2.6mm (0.16 carats). The three largest stones from Kahuna measured 4.78x3.94x2.66mm (0.27 carats), 4.08x3.58x2.56mm (0.18 carats), and 2.4x2.2x2.14mm (0.1 carats). To date, preliminary observation describes the majority of the diamonds as clear, colorless to white and dominated by octahedrons with some macles, dodecahedrons, and twins.

Sample Number	Sample Weight Dry (tonnes)	Sample Grade Carats per tonne (+0.85mm)	Weight of Diamonds Recovered (carats) (>+0.85mm)	Number of stones >0.85mm	0.85 mm Sieve	1.18 mm Sieve	1.70 mm Sieve	2.36 mm Sieve	3.35 mm Sieve
PST003 <sup>1</sup>	3.55	2.04	7.24	229	126	76	20	6	1
Kahuna <sup>2</sup>	3.13	1.09	3.40	175	129	38	6	2	0
Notch <sup>3</sup>	4.93	0.69	3.39	133	75	45	13	0	0
Notch North <sup>4</sup>	0.5	0.8	0.40	23	15	7	1	0	0
Jigsaw <sup>5</sup>	5.15	0.39	1.99	72	47	16	8	1	0

1- Largest stone dimensions 5.1x4.4x2.8mm white octahedroid; 5.6x4.6x2.2mm white twinned octahedron; 3.7x2.84x2.6mm white broken octahedron.

2- Largest stone dimensions: 4.78x3.94x2.66mm white; 4.08x3.58x2.56mm white broken aggregate, 2.4x2.2x2.14mm pink cubic.

3- Largest stone dimensions: 3.6x3.4x1.92mm white broken aggregate; 3.64x2.4x1.8mm colorless broken, 3.1x2.1x2mm white 2.9x2.3x2.1 colorless octahedron.

4- Largest stone dimensions: 3.24x1.88x0.9mm white fragment; 2.04x1.48x1.28mm amber octahedroid; 1.7x1.58x1.2mm clear octahedroid.

5- Largest stone dimensions: 3.08x2.9x2.6mm black octahedroid, 2.2x1.82x1.44mm colorless broken, 3.72x2.32x2.3mm colorless broken aggregate.

The samples reported were collected by Shear using surface trenching in August and September 2006. Sample results are based on the recovery of diamonds by Dense Media Separation (DMS) at De Beers Processing plant in Grande Prairie, AB after an initial 8.0mm primary crush. Samples were finished by a caustic fusion of the concentrate at the Saskatchewan Research Council. Sample weights and diamond counts are reported for standard sieve classes greater than 0.85mm (using a square mesh).

#### PST003

The PST003 kimberlite is located 2 km to the south of Notch within the Sedna Corridor. It is a 0.8m wide vertical dyke estimated to trend for 500m based on geophysical interpretation. Six holes from three set ups have been drilled into PST003. The largest diamonds from the mini-bulk samples weighed 0.55, 0.29, 0.17, 0.163, and 0.16 carats. Recent geophysical interpretation has identified what could be the southern extension to PST003, trending for 4-5 km to the southwest.

#### Kahuna

The Kahuna kimberlite is located within the Josephine River Corridor and is a 3.5m to 4m wide vertical kimberlite dyke that trends for more than 5.5 km based on geophysical interpretation. Five drill holes from three setups have intersected the Kahuna kimberlite as well as trenching at two sites. The largest diamonds from the mini-bulk samples were 0.27, 0.18 and 0.10 carats. The largest diamond recovered prior to this at Kahuna measured 3.55x2.95x2.90mm and weighed 0.3 carats.

#### Notch

The Notch kimberlite is located 15 km southwest of Kahuna in the Sedna Corridor and is a 1.5m wide vertical kimberlite dyke that trends for more than 3 km based on geophysical interpretation. Notch North was collected 1.5 km north of the main Notch outcrop. The largest diamonds are 0.129, 0.11, and 0.108 carats. A total of 11 drill holes from 7 setups have been drilled into the Notch kimberlite trend.

#### Jigsaw

The Jigsaw kimberlite is located 20 km northwest of Notch to the northwest of the head of the Sedna Corridor. Jigsaw is a 1.3m wide vertical dyke estimated to be 1 km in length based on geophysical interpretation. No drilling has been conducted on the Jigsaw trend. The largest diamonds are 0.16, 0.14 and 0.12 carats.

In 2006, a total of 850 till samples were collected on the Churchill Property in order to infill the sampling density in the core areas and to better define the indicator mineral trains. Since 2000, more than 8,500 surface samples have been collected and processed and more than 20,000 microprobe analyses have been completed. The increased detail from the refined till sample data set will enable the technical team to target

subtle geophysical anomalies within the remaining 17 key areas of interest based on mineral chemistry for the 2007 drill program. Results are pending.

In 2006 a total of 23 holes have been drilled (1,447m) resulting in the discovery of the Notch and PST02 kimberlite dykes within the Sedna Corridor. In 2006 within the Josephine River Corridor a total of 15 holes were drilled (1,125m). The Kahuna kimberlite dyke was discovered as well as four additional kimberlites, three are classified as low diamond potential based on visual characteristics. Seven additional targets were tested but no kimberlite intersected.

#### **Future Plans**

In 2007 Shear is planning to take a larger bulk sample of between 100 to 500 tonnes from one or all of the kimberlite dykes that were mini-bulk sampled in 2006. The Company is also planning detailed drilling along the strike length of the known dykes, ground geophysics, till sampling, and ongoing exploration drilling to target the 17 high interest dispersions that remain unsourced on the property. 2007 budget plans are currently underway.

## **2. CHURCHILL WEST, Nunavut**

The Company is currently exploring the Churchill West project with International Samuel Exploration Corp. ("Samuel"), Stornoway and BHP Billiton where the Company holds a 26.32% interest, and Samuel, Stornoway and BHP Billiton have interests of 48.50%, 18.28% and 6.90%, respectively in the diamond rights to the property. The property is subject to a 2.0% gross overriding royalty and net smelter royalty in favour of Hunter with respect to the commercial production of diamonds. 100% of all non diamond rights are held by Kaminak Gold Corp.

On March 27, 2006 BHP Billiton informed Shear of their intention not to participate in the 2006 Churchill and Churchill West exploration programs and to allow BHP Billiton's interest in the two projects to dilute accordingly. Shear has assumed operatorship of the Churchill West Diamond Joint Venture.

The Churchill West project encompasses 397,705 acres located near the community of Rankin Inlet in the Kivalliq region of Nunavut, contiguous to the Churchill Diamond Project. In 2003 two kimberlites were discovered on the Churchill West property.

In 2005 the Company and its partners completed a \$300,000 high resolution airborne geophysical survey at the Churchill West Diamond Property. The 3,658 line km magnetic-electromagnetic airborne geophysical survey was intended to follow up indicator mineral chemistry of interest in the south eastern region of the property and was flown at 100 meter line spacing.

The 2006 program included ground geophysics, till sampling and prospecting of 70 priority geophysical targets.

#### **Future Plans**

Indicator mineral results are still pending for the till samples taken in 2006. Based on those results, final 2007 program plans will be finalized but will likely include ground geophysical surveys over selected targets.

## **3. HECLA, Nunavut**

The Hecla Diamond Project is composed of 465,000 acres of federal prospecting permits located on Melville Island in the NWT. Shear has 100% of this project.

The project was acquired based on a conceptual idea and as a result of the identification from air photos and satellite imagery of more than 15 features in two locales suggestive of kimberlitic intrusives. There are more than 15 features that are circular in shape and range in diameter up to 200m. The host rocks are Paleozoic flat lying sediments that make these features prominent, similar to the known kimberlites on both Somerset Island and the Brodeur Peninsula.

Shear has agreed to issue an aggregate of 200,000 common shares as a finder's fee upon the following milestones being achieved: 25,000 shares upon the successful acquisition of the land (completed); 75,000 shares upon the discovery of a kimberlite; and 100,000 shares upon the discovery of one or more diamonds per kilogram in any 25 kilogram sample of kimberlite.

In addition, Shear has granted a 2% gross overriding royalty fee, of which 1% can be purchased by Shear for \$1.5 million.

In July 2005 the Company mobilized a five person crew to Resolute in order to initiate fieldwork on the Hecla Diamond Project located on Melville Island in the Northwest Territories. The 8 day field program included prospecting sites of interest, sampling and mapping. No indicator minerals were recovered from the samples collected. Many areas were not able to be evaluated due to snow cover.

#### Future Plans

The property was not visited in 2006 but a preliminary budget of \$75,000 has been proposed for a property visit in 2007. Future field visits will be subject to weather conditions due to the northern location of this property.

#### 4. AYLMEER LAKE WEST, Northwest Territories

During 2006 the Company wrote off the carrying amounts related to the Aylmer Lake West Property as the Company has no current plans for further exploration on this property.

#### 5. XYZ, Northwest Territories

This project operates under a joint venture agreement with Hunter. Shear holds an 80% interest in the project. Hunter retains a 2.0% net smelter royalty on non-diamond production as well as a 2.0% gross overriding royalty on diamond production from the property. Shear is required to pay Hunter a \$10,000 annual advance royalty payment which increases to \$25,000 annually commencing June 30, 2008.

The XYZ Project is composed of more than 19,000 acres of mineral claims located along the northwest boundary of the Ekati™ Diamond Mine property and 225km northeast of Yellowknife, NWT. The project was acquired in 2001 after a high concentration of G10 garnets (a 5 kg un-concentrated sample yielded 15,500 pyrope garnets, 29% of which were G10's, 10,000 microilmnenites and 1,000 olivines) and three diamonds (the largest measuring 0.44x0.42x0.212 mm) were identified in a 194kg beach sand sample from the property. Since that time, Shear has completed airborne geophysics, sampling and ground geophysics and drilling (no kimberlite was intersected).

The source to the indicator minerals being found on surface still remains unknown but Shear believes the source to be local. In 2005 the Company completed a 3 day sampling program and collected 79 till surface samples for kimberlite indicator mineral processing. Results will be incorporated into future planning. The purpose of the sampling is to better rank the geophysical anomalies for follow up drill testing. Shear plans to continue to interpret the data and to follow up on the remaining 10 geophysical targets.

#### Future Plans

Presently Shear is re-interpreting past geophysical data in conjunction with till sample results. Once results are complete a 2007 budget will be finalized. The 2007 exploration program may include ground follow up and possibly drill testing of priority targets.

#### 6. AFRIDI LAKE, Northwest Territories

This project operates under a joint venture agreement with International Samuel Exploration Corporation ("Samuel"), New World Resource Corp. ("New World" - formerly Dasher Energy Corp.) and Mantle Resources Inc. ("Mantle"). Shear currently holds 58.2% interest in the property and Samuel, New World and Mantle have 25.4%, 8.2% and 8.2%, respectively.

The Company is obligated to issue 100,000 of its common shares to Mantle for each diamondiferous kimberlite discovered on the property, to a maximum of three kimberlites. The Company is also obligated to pay a 5% gross overriding royalty and net smelter fee on production of the property.

The Afridi Lake Property is comprised of 24 mineral claims and three mineral leases (68,600 acres) located approximately 40km east of the Diavik Diamond Mine and the established diamond district of Lac de Gras and approximately 320 km northeast of Yellowknife, Northwest Territories. There are five known kimberlites on the properties (DA-1, DA-2, DA-3, DA-2SW and the Jordan kimberlites) and more than 100 geophysical targets, some of which have been covered by ground geophysics and are drill-ready.

In 2005 the Company completed a 3 day sampling program and collected 31 surface till samples for kimberlite indicator mineral processing. In 2006 a 2-day site visit was conducted to collect samples of the kimberlites and host rock for physical property testing. Results will be used to determine future geophysical methods.

#### Future Plans

Joint venture agreements are currently being finalized. Once complete, the 2007 field budget will be finalized. Current work is comprised of compilation with interpretation of the all till sample results to date in conjunction with the geophysical data. 2007 exploration may include additional geophysics (such as airborne and ground gravity) followed by ground checks and drill testing of priority targets. In addition, plans may include the re-interpretation of the known kimberlites to determine whether further drill testing of the kimberlites for diamond analysis is warranted.

#### 7. SHULIN LAKE PROJECT, Alaska

By not participating in various programs, the Company's interest has been diluted to 8.2%. If the Company decides not to participate in future exploration costs, this interest will be diluted on a pro-rata basis to a minimum 4% profit interest.

On July 18, 2005, the Company announced that it has been informed by joint venture operator Golconda Resources Ltd. that one white transparent diamond fragment (0.46x0.26x0.14mm) was recovered from 2,400kg of tuffaceous material from a total of 9 samples. These samples were collected from the drilling of three separate magnetic anomalies and were processed at the SGS Lakefield lab in Lakefield, Ontario. Golconda is currently devising a program to determine the origin of the tuffaceous phase that contains the diamonds that the partnership has recovered over the past three years.

#### **Future Plans**

Upon receiving the result of the current program, Shear will re-evaluate its position with respect to future expenditures.

### **8. PICHE, Alberta**

On November 16, 2005, the Company acquired an option on the Piche Lake Property in north central Alberta. Under the terms of the agreement Shear can earn into an initial 51% by incurring a total of \$500,000 of exploration expenditures over two years inclusive of \$100,000 in exploration within the first year. In addition, Shear has the ability to earn an additional 24% in the property by spending an additional \$1 million in exploration expenditures over two years after earning 51%.

The Piche Lake Property is road accessible and is composed of two blocks collectively totaling 380,000 acres and is located 170km northeast of Edmonton, Alberta. Previous exploration by Marmac Mines Ltd. has outlined one prominent pipe like discontinuity on seismic data that is suggestive of a kimberlite pipe. The Piche Lake Property is located within the regional Vegreville kimberlite indicator mineral trend as outlined by the Alberta Geological Survey and is also located along the projected trend of the Snowbird Tectonic Zone, a crustal structure potentially favorable for kimberlite emplacement.

On May 3, 2006 the Company completed an airborne geophysical survey which covered 19 townships at 150m spacings in order to follow up eight high priority seismic pipe-like targets suggestive of kimberlite at both the Piche Lake and Liege Properties. The survey, conducted by Firefly Aviation, provides high resolution data that can assist Shear to more accurately locate and rank the targets and identify any new targets suggestive of kimberlite.

In 2006, Shear completed the ground checking of selected targets plus ground geophysical surveying over priority anomalies from the airborne geophysics. Further interpretation is underway on the Piche Property and several geophysical anomalies suggestive of kimberlite have been picked for follow up.

#### **Future Plans**

The Company will evaluate all the data collected in 2006 to plan the exploration program for 2007. Future plans may include additional ground geophysical surveys (magnetics, EM and/or gravity) with possible drill testing of high interest targets. Budgetary meetings for the 2007 field program are currently underway with partners.

### **9. LIEGE, Alberta**

On November 30, 2005, the Company acquired a farm-out agreement on a significant land position in north central Alberta for diamond exploration. The property, known as the Liege Diamond Project, was acquired from a Canadian oil and natural gas exploration, development and production company. Under the terms of the agreement, Shear can earn into an initial 51% interest by incurring a total of \$1,000,000 of exploration expenditures over three years inclusive of \$325,000 in exploration within the first year. A \$10,000 cash finder's fee was paid by Shear under the terms of the agreement.

Seven prominent pipe-like targets have been identified from seismic surveys and are suggestive of kimberlites. They were generated during exploration for oil and gas. The Liege Diamond Project consists of 155,000 acres and is located 360km north of Edmonton, Alberta. The project area lies 80km immediately east of the Buffalo Head Hills kimberlite cluster and is located along the projected trend of the Peace River Arch, a crustal structure potentially favorable for kimberlite emplacement.

On May 3, 2006 the Company completed an airborne geophysical survey which covered 19 townships at 150m spacings in order to follow up eight high priority seismic pipe-like targets suggestive of kimberlite at both the Piche Lake and Liege Properties. The survey, conducted by Firefly Aviation, provides high resolution data that can assist Shear to more accurately locate and rank the targets and identify any new targets suggestive of kimberlite.

The interpretation is underway on the Liege Property and several geophysical anomalies suggestive of kimberlite have been picked. In 2006, Shear completed the ground checking of selected targets plus ground geophysical surveying over priority anomalies from the airborne geophysics. Further interpretation is underway on the Liege Property and several geophysical anomalies suggestive of kimberlite have been picked for follow up.

#### Future Plans

Once all geophysical data has been interpreted, drill targets will be finalized. Drill testing would mostly likely be planned for the spring of 2008 when winter road access is possible.

### 10. STELLA POLARIS, Saskatchewan

On April 21, 2006, the Company acquired a significant land position in southern Saskatchewan for diamond exploration. The Stella Polaris Diamond Project (the "Property") is comprised of 235 mineral claims totaling approximately 300,000 hectares (741,000 acres) located approximately 150 km southwest of Regina, SK along the border to the US and is road accessible throughout the year. Shear acquired the Property by staking based on data acquired by Shear from two arm's length parties (the "Vendors").

Pursuant to an agreement dated January 30, 2006 ("the Agreement") between Shear and the Vendors, Shear must:

- a) within 10 days of receipt of regulatory approval, pay to the Vendors \$25,000 and issue to the Vendors an aggregate of 200,000 common shares of Shear ("Common Shares") (completed);
- b) pay \$25,000 to the Vendors before January 30, 2007 (completed);
- c) pay \$35,000 to the Vendors and issue to the Vendors an aggregate of 100,000 Common Shares before January 30, 2008;
- d) pay \$50,000 to the Vendors and issue to the Vendors an aggregate of 100,000 Common Shares before January 30, 2009; and
- e) pay \$75,000 to the Vendors and issue to the Vendors an aggregate of 200,000 Common Shares before January 30, 2010.

(collectively, the "Consideration"). Until the Consideration is fully paid, Shear and the Vendors are subject to an area of mutual interest and will jointly review decisions regarding the Property, including proposed work programs. Shear can elect to accelerate payment of the Consideration, in which case the Vendors will have no further interest in the Property except for a 3% gross overriding royalty ("GORR") on diamonds, metals and minerals produced from the Property. Shear shall be entitled to purchase 1% of the 3% GORR for \$2 million cash at any time. Shear can be relieved of its obligations pursuant to the Agreement, including the payment of the balance of the Consideration following the initial payment and share issuance, by relinquishing all rights in the Property to the Vendors.

Shear entered into an agreement with Lyncorp International Ltd. ("Lyncorp"), a private Alberta company owned by a director of Shear, whereby Lyncorp agreed to fund \$250,000 in exploration expenditures or acquisition costs on the Property within one year to earn an undivided 49% interest in the Property. Once the earn-in is complete, a formal joint venture will be formed whereby each party is responsible for their pro rata share of exploration expenditures and property payments consisting of both cash and shares (or cash equivalent). Shear has a right of first refusal on Lyncorp's interest. Shear will be the operator of the Property.

On October 4, 2006, Shear announced the presence of a large pyrope dominated kimberlite indicator dispersion plume on the Stella Property.

In the summer of 2006, a total of 6,819 kimberlite indicator minerals were recovered from 25 surface samples collected from the Property. All samples contained kimberlite indicator minerals with total counts ranging from one grain per sample to the highest count of 1,218 picked kimberlite indicator minerals. In general the samples are dominated by purple pyrope garnets with the highest pyrope count being 817 pyropes from sample 06S007, of which 43 grains were in the 2-3mm size fraction. Other indicator minerals include orange garnets, ilmenite, chromite and chrome diopside. The highest indicator mineral abundances are located near the centre of the property with abundances decreasing towards the east and west that may suggest multiple undiscovered local kimberlite sources. Samples were processed and picked at Mineral Services Canada in Vancouver, BC. Selected grains will be sent for microprobe analysis and surface feature analysis.

In the fall of 2006 a total of 30 till samples were collected and high priority areas were prospected. Indicator mineral results are pending.

#### Future Plans

Once indicator mineral results and associated mineral chemistry results are received and interpreted, 2007 field program plans will be made. Follow up work may include airborne and ground geophysical surveying over priority areas.

	For the Year Ended November 30, 2006			For the Year Ended Nov. 30, 2005
	Acquisition Costs	Exploration Costs	Total	Total
<b>XYZ</b>				
Land tenure	-	-	-	4,237
Option costs - cash	10,000	-	10,000	10,000
General exploration	-	2,207	2,207	36,476
Sampling	-	25,835	25,835	3,749
	10,000	28,042	38,042	54,462
<b>Afridi Lake</b>				
Land tenure	39,354	-	39,354	7,807
General exploration	-	12,762	12,762	64,549
Environment	-	540	540	-
Sampling	-	18,273	18,273	14,153
Ground geophysics	-	107	107	-
Expenses recovered from partner	(16,450)	(13,243)	(29,693)	(21,973)
	22,904	18,439	41,343	64,536
<b>Sakari</b>				
Option costs - cash	97,618	-	97,618	-
	97,618	-	97,618	-
<b>Back River Gold</b>				
Land tenure	-	-	-	10,111
General exploration	-	-	-	71,374
Sampling	-	-	-	2,811
Spin off transaction	-	-	-	(514,899)
	-	-	-	(430,603)
<b>Aylmer Lake/Afridi East</b>				
Project consulting	-	-	-	724
Write down of mineral property	-	-	-	(165,701)
	-	-	-	(164,977)
<b>Shulin Lake</b>				
Land tenure	-	-	-	3,821
General exploration	-	240	240	85,860
Sampling	-	893	893	
	-	1,133	1,133	89,681

	For the Year Ended November 30, 2006			For the Year Ended Nov. 30, 2005
	Acquisition Costs	Exploration Costs	Total	Total
<b>Piche</b>				
Land tenure	4,433	-	4,433	5,540
General exploration	-	20,568	20,568	874
Environment	-	4,924	4,924	-
Sampling	-	206	206	-
Ground geophysics	-	7,199	7,199	-
Airborne geophysics	-	118,822	118,822	-
Community consultations	-	1,161	1,161	-
	4,433	152,880	157,313	6,414
<b>Liege</b>				
Land tenure	39,644	-	39,644	11,848
General exploration	-	12,306	12,306	-
Environment	-	7,265	7,265	-
Sampling	-	570	570	-
Ground geophysics	-	51,883	51,883	-
Airborne geophysics	-	106,219	106,219	-
Community consultations	-	325	325	-
	39,644	178,568	218,212	11,848
<b>Stella Polaris</b>				
Land tenure	108,810	-	108,810	-
Option costs – cash	25,000	-	25,000	-
Option costs – shares	114,000	-	114,000	-
General exploration	-	88,187	88,187	-
Environment	-	4,811	4,811	-
Sampling	-	7,371	7,371	-
Ground geophysics	-	4,910	4,910	-
Airborne geophysics	-	26,217	26,217	-
Prospecting	-	9,149	9,149	-
Community consultations	-	250	250	-
Expenses recovered from partner	(105,350)	(136,520)	(241,870)	-
	142,460	4,375	146,835	-
<b>Other</b>				
General Exploration	-	8,048	8,048	21,195
Sampling	-	25,516	25,516	58,564
	-	33,564	33,564	79,759
	\$ (59,355)	\$ 1,647,345	\$ 1,587,990	\$ 3,444,328

## **Risks and Uncertainties**

The success of Shear's business is subject to a number of factors, including but not limited to those risks normally encountered by junior resource exploration companies, such as exploration uncertainty, operating hazards, increasing environmental regulation, competition with companies having greater resources, and lack of operating cash flow. In addition, there is no quoted market price for diamonds and the market price for rough diamonds is dependent on an efficient market management system. Shear's on-going ability to finance exploration beyond those programs budgeted to date will depend on, amongst other things, the viability of equity markets.

## **Disclosure Controls and Internal Control over Financial Reporting**

Management has designed disclosure controls and procedures that provide reasonable assurance that material information relating to the Company is disclosed on a timely basis. Management believes these disclosure controls and procedures were operating effectively as of November 30, 2006.

Management has designed internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with Canadian Generally Accepted Accounting Principles. Lack of optimal segregation of duties has been observed due to the relatively small size of the Company, but management believes that these weaknesses have been adequately mitigated through management oversight, compensating controls, and a strong control environment.

## **Critical Accounting Estimates**

The most significant accounting estimate for the Company relates to the carrying value of its mineral property assets. At the end of each quarter, exploration and acquisition expenditures are reviewed and if the expenditures are deemed to have added value to the property, the expenditures are capitalized. The impairment of mineral properties is assessed whenever changes in circumstances indicate the carrying amount may not be recoverable and the properties are written down to estimated fair value. The Company may choose to retain the mineral rights to a property after it is written off if management believes there may be an opportunity to vend or explore the property in the future.

Another significant accounting estimate used by the Company relates to the accounting for share-based compensation. The Black-Scholes Option Pricing Model is used to determine the fair value of the option and utilizes subjective assumptions such as expected price volatility and expected life of the option. Discrepancies in these input assumptions can significantly affect the fair value estimate.



March 15, 2007

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#### Auditors' Report

To the Shareholders of  
Shear Minerals Ltd.

We have audited the consolidated balance sheets of **Shear Minerals Ltd.** as at November 30, 2006 and 2005 and the consolidated statements of loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at November 30, 2006 and 2005 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*PricewaterhouseCoopers LLP*

Chartered Accountants

Edmonton, Alberta

PricewaterhouseCoopers refers to the Canadian firm of PricewaterhouseCoopers LLP and the other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

# Shear Minerals Ltd.

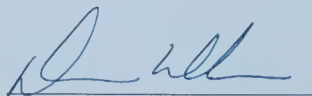
Consolidated Balance Sheets  
November 30, 2006 and 2005

	2006 \$	2005 \$
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	2,658,440	558,328
Restricted cash (note 4)	42,537	1,113,714
Short-term investments – market value \$101,627 (2005 – \$72,883)	95,427	72,483
Accounts receivable	175,671	319,200
Operator recoveries	107,701	187,854
Prepaid expenses	26,920	25,921
	3,106,696	2,277,500
<b>Equipment</b> (note 5)	64,758	78,816
<b>Mineral properties</b> (note 6)	14,094,988	12,506,998
	17,266,442	14,863,314
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accruals	270,854	326,621
Deposits from exploration partners	70,315	635,933
	341,169	962,554
<b>Future income taxes</b> (note 7)	2,379,622	2,587,309
	2,720,791	3,549,863
<b>Shareholders' Equity</b>		
<b>Share capital</b> (notes 8 and 11)	19,538,477	15,775,692
<b>Contributed surplus</b> (note 8)	1,614,666	1,458,825
<b>Deficit</b>	(6,607,492)	(5,921,066)
	14,545,651	11,313,451
	17,266,442	14,863,314

Approved by the Board of Directors



Pamela Strand, Director



David Mullen, Director

	2006 \$	2005 \$
<b>Revenue</b>		
Interest	94,101	87,233
Management fees	79,143	79,071
Other revenue	28,405	16,292
	<u>201,649</u>	<u>182,596</u>
<b>Expenses</b>		
General and administrative	392,761	348,706
Management fees (note 9)	124,500	195,225
Professional fees	117,455	80,454
Consulting fees	68,644	83,394
Amortization	26,068	22,049
Interest	-	96
	<u>729,428</u>	<u>729,924</u>
	(527,779)	(547,328)
<b>Recovery (write down) of short-term investments</b>	22,944	(55,847)
<b>Write down of mineral properties</b> (note 6)	(876,698)	(165,701)
<b>Loss on sale of short-term investments</b>	-	(350)
<b>Loss before income taxes</b>	(1,381,533)	(769,226)
<b>Future income tax recovery</b> (note 7)	695,107	57,365
<b>Net loss for the year</b>	(686,426)	(711,861)
<b>Deficit – Beginning of year</b>	(5,921,066)	(3,832,456)
<b>Distribution of assets on spin off transaction</b> (note 2)	-	(1,376,749)
<b>Deficit – End of year</b>	(6,607,492)	(5,921,066)
<b>Basic and diluted loss per common share</b>	(0.011)	(0.013)
<b>Weighted average number of shares common outstanding</b>	63,304,361	54,623,079

# Shear Minerals Ltd.

Consolidated Statements of Cash Flows  
November 30, 2006 and 2005

	2006 \$	2005 \$
<b>Cash provided by (used in)</b>		
<b>Operating activities</b>		
Net loss for the year	(686,426)	(711,861)
Items not affecting cash		
Amortization	26,068	22,049
Share-based compensation	17,500	120,725
Write down of mineral properties	876,698	165,701
(Recovery) write down of short-term investments	(22,944)	55,847
Loss on sale of short-term investments	-	350
Future income tax recovery	(695,107)	(57,365)
	(484,211)	(404,554)
Net change in non-cash working capital balances relating to operating activities	(398,702)	(1,088,142)
	(882,913)	(1,492,696)
<b>Financing activities</b>		
Issuance of shares	4,575,455	175,000
Share issue costs	(388,409)	(142,219)
	4,187,046	32,781
<b>Investing activities</b>		
Mineral properties		
Acquisition costs	37,418	(167,399)
Exploration costs	(2,300,606)	(3,926,879)
Increase (decrease) in restricted cash	1,071,177	(1,113,714)
Purchase of equipment	(12,010)	(72,637)
Net proceeds from sale of short-term investments	-	650
	(1,204,021)	(5,279,979)
<b>Increase (decrease) in cash and cash equivalents</b>	2,100,112	(6,739,894)
<b>Cash and cash equivalents – Beginning of year</b>	558,328	7,298,222
<b>Cash and cash equivalents – End of year</b>	2,658,440	558,328
<b>Supplementary information</b>		
Interest received	70,808	110,205

## 1. Nature of operations

Shear Minerals Ltd. (the "Company" or "Shear") is in the business of acquiring and exploring mineral properties located primarily in Canada. The Company has not yet determined whether these properties contain precious mineral reserves that are economically recoverable and the Company is not presently carrying on active exploration efforts on certain of its mineral properties. To date, the Company has not earned significant revenues and is considered to be in the development stage. The recoverability of the amounts shown for mineral properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown in note 6 represent costs to date for property acquisition (including mineral claims and permits) and exploration expenditures, and do not necessarily reflect present or future values.

## 2. Spin off transaction

On November 9, 2005, the Company completed a reorganization whereby it has distributed shares of its wholly owned subsidiary Kaminak Gold Corporation ("Kaminak") to holders of Shear common shares. The spin off has been recorded as a distribution to shareholders at the carrying amount of net assets held by Kaminak immediately prior to the reorganization.

In connection with the transaction:

- a) Shear issued to Hunter Exploration Group ("Hunter") an aggregate of 1,500,000 common shares of Shear ("Original Shares") at a deemed price of \$0.43 per Original Share and warrants to acquire an additional 750,000 Original Shares at a price of \$1.50 per Original Share within one year of issuance to acquire an interest in the Hunter Properties. The tax basis of the Hunter Properties was lower than the accounting basis at the time of acquisition. This created a future tax liability of \$216,850 which has been included in the carrying value of the assets transferred to Kaminak;
- b) Shear transferred its interest in the Hunter Properties and Shear's gold properties (Back River Gold) to Kaminak for 11,225,684 Kaminak Shares; and
- c) Shear exchanged each outstanding Original Share for one new common share of Shear and 1/5 of a common share of Kaminak. All common shares of Kaminak were distributed in this manner to Shear's shareholders.

The aggregate carrying value of the assets transferred from the Company to Kaminak is as follows:

	\$
Mineral properties – Hunter	861,850
Mineral properties – Back River Gold	<u>514,899</u>
	<u>1,376,749</u>

## 3. Accounting policies

### Use of estimates

These financial statements have been prepared by management in accordance with accounting principles generally accepted in Canada. Because the precise determination of many assets, liabilities, revenues and expenses are dependent on future events, the preparation of financial statements for a period necessarily includes the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in management's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

### Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary companies 4579 Nunavut Limited and 5098 Nunavut Limited.

### Revenue recognition

Fees for project management are recorded on an accrual basis as services are provided under the respective operating agreements.

### Cash and cash equivalents

Cash and cash equivalents are defined as amounts on deposit with banks and readily convertible guaranteed investment certificates with original maturities of less than three months.

### Short-term investments

Short-term portfolio investments are carried at the lower of cost or market value. When the market value of an investment which was previously written down to market value has recovered, a recovery of short-term investments is recorded in the statement of loss and deficit and the

carrying value of the investment is adjusted accordingly, up to the maximum of its original cost.

**Equipment**

Equipment is recorded at cost less accumulated amortization. Amortization is calculated using the straight-line method at 30% per annum on computer equipment and 20% per annum on field equipment. Equipment is considered to be impaired when its carrying value exceeds the total cash flows expected from its use and eventual disposition. The amount of impairment is determined as the carrying amount in excess of fair values and is charged to income in the period incurred.

**Mineral properties**

Direct costs relating to the acquisition, exploration and development of mineral properties, including interest on borrowings directly related to a property, are capitalized on an area of interest basis. When the Company is the operator of a project and incurs costs on behalf of joint venture partners, these costs are periodically charged back to the partners and are recorded as operator recoveries. Operator recoveries are credited to exploration costs. Cumulative expenditures will be charged against income, through unit-of-production depletion, when properties are developed to the stage of commercial production. Where the Company's exploration commitments for an area of interest are performed under option agreements with a third party, the proceeds of any option payments under such agreements are applied to the area of interest to the extent of costs incurred. The excess, if any, is credited to operations. The impairment of mineral properties is assessed whenever changes in circumstances indicate the carrying amount may not be recoverable and if an impairment is identified, the properties are written down to estimated fair value. Specifically, if the Company's work program on an area of interest has significantly changed so that it no longer has plans for future exploration, previously deferred costs related to the property are charged to operations.

**Income taxes**

The asset and liability method is used for determining future income taxes. Under this method, future tax assets and liabilities are recognized for the estimated tax recoverable or payable that would arise if assets and liabilities were recovered and settled at the financial statement carrying amounts. Future tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which temporary differences are expected to be recovered or settled. Changes to these balances are recognized in income in the period in which they occur. The amount of future income tax assets recognized is limited to the amount that is more likely than not to be realized.

**Asset retirement obligations**

The Company recognizes a liability for retirement obligations associated with long-lived assets, including the abandonment of mineral properties and returning properties to their original condition. Asset retirement costs must be recognized at fair value in the period incurred, along with a corresponding increase in the carrying value of the related long-lived asset. The liability is subsequently adjusted for the passage of time and recognized as an accretion expense in the statement of loss and deficit. The increase in the carrying value of the asset is amortized on the same basis as the related long-term asset. At this time, the Company does not have any significant asset retirement obligations.

**Flow-through common shares**

The Company credits the proceeds of flow-through common shares, which transfer the deductibility of exploration expenses to the investor, to share capital. A future income tax liability is recorded and share capital is reduced by the cost of future income taxes when the Company files the renouncement documents to renounce the tax credits to the holders of these shares.

**Share-based compensation**

The Company grants share options to executive officers, directors and certain consultants pursuant to a share option plan. In addition, from time to time in connection with short form offerings and private placements, the Company issues warrants to agents as commission for services. Awards of share options are accounted for in accordance with the fair value method of accounting for stock-based compensation and result in compensation expense which is recognized over the vesting period with a corresponding credit to contributed surplus. Awards of warrants to agents are also accounted for using the fair value method and result in share issue costs and a credit to contributed surplus when the warrants are issued. Any consideration paid on exercise of share options is credited to share capital.

**Loss per share**

Loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated using the treasury stock method. Under the treasury stock method, deemed proceeds from the exercise of options and warrants whose exercise prices are below the average market price of the shares are considered to be used to reacquire common shares at the average market price during the year. In years of net losses, this calculation is anti-dilutive.

**Joint interest options**

Certain of the Company's exploration activities are conducted jointly with others. These financial statements reflect only the Company's proportionate interest in such activities.

**Comparative figures**

Certain comparative amounts have been reclassified to conform to the current year presentation.

#### 4. Restricted cash

The Company has provided guaranteed investment certificates ("GIC") in the amount of \$42,537 (2005 – \$1,113,714) to secure letters of credit in support of the Company's exploration activities.

#### 5. Equipment

	2006			2005		
	Cost \$	Accumulated amortization \$	Net \$	Cost \$	Accumulated amortization \$	Net \$
Field equipment	104,953	48,577	56,376	92,943	30,867	62,076
Computer equipment	28,909	20,527	8,382	28,909	12,169	16,740
	<u>133,862</u>	<u>69,104</u>	<u>64,758</u>	<u>121,852</u>	<u>43,036</u>	<u>78,816</u>

#### 6. Mineral properties

	2006			2005	
	Percentage ownership interest %	Acquisition costs \$	Exploration costs \$	Net carrying amount \$	Net carrying amount \$
Northwest and Nunavut Territories					
Churchill Diamond Project	51.88	797,367	10,614,605	11,411,972	9,689,430
Aylmer Lake West	-	-	-	-	866,300
XYZ	80.00	170,956	468,483	639,439	601,397
Afridi Lake	58.20	125,126	437,205	562,331	520,988
Hecla	100.00	17,102	191,099	208,201	248,181
Churchill West	26.32	57,261	214,936	272,197	234,529
Sakari	*50.00	97,618	-	97,618	-
Alaska					
Shulin Lake	8.20	3,821	230,993	234,814	233,681
Alberta					
Piche	*51.00	9,973	153,754	163,727	6,414
Liege	*51.00	51,492	178,568	230,060	11,848
Saskatchewan					
Stella	*51.00	142,460	4,375	146,835	-
Other	100.00	2,016	125,778	127,794	94,230
		<u>1,475,192</u>	<u>12,619,796</u>	<u>14,094,988</u>	<u>12,506,998</u>

\*The Company is in the process of earning into an ownership interest through completion of terms in option agreements (see below).

During 2006, the Company wrote off the carrying amounts related to the Aylmer Lake West property in the amount of \$876,698 as the Company has no current plans for further exploration on this property.

During 2005, the Company wrote off the carrying amounts related to the Aylmer Lake/Afridi East property in the amount of \$165,701 as the Company had no current plans for further exploration on this property.

**Contractual options and commitments****a) Churchill Diamond Project**

The Company is currently exploring the Churchill Diamond Project with Stornoway Diamond Corp. ("Stornoway") and BHP Billiton Diamonds Inc. ("BHPB") where the Company holds a 51.88% interest, and Stornoway and BHPB have 35.62% and 12.50% interest, respectively in the diamond rights to the property. The property is subject to a 2.00% gross overriding royalty and net smelter royalty in favour of the Hunter Exploration Group ("Hunter") with respect to the commercial production of diamonds.

On May 30, 2003, the Company entered into an agreement with BHPB whereby BHPB will fund the entire cost to collect, sample and process the initial 200 tonnes of kimberlitic material from the Churchill Property and sign a standstill agreement for a four year period whereby BHPB is prohibited from participating in a takeover bid, merger, or acquisition of more than 10.00% of the voting securities of Shear.

On March 27, 2006, BHPB informed Shear of its intention not to participate in the 2006 Churchill and Churchill West exploration programs and to allow its interest in the two projects to dilute accordingly. Shear is the operator of the project.

**b) XYZ**

This project operates under a joint venture agreement with Hunter. Hunter retains a 2.00% net smelter royalty on non-diamond production as well as a 2.00% gross overriding royalty on diamond production from the property. Shear is required to pay Hunter a \$10,000 annual advance royalty payment which increases to \$25,000 annually commencing June 30, 2008.

**c) Afridi Lake**

This project operates under a joint venture agreement with International Samuel Exploration Corporation ("Samuel"), New World Resource Corp. ("New World") and Mantle Resources Inc. ("Mantle"). Shear currently holds a 58.20% interest in the property and Samuel, New World and Mantle have 25.40%, 8.20% and 8.20%, respectively.

The Company is obligated to issue 100,000 of its common shares to Mantle for each diamondiferous kimberlite discovered on the property, to a maximum of three kimberlites. The Company is also obligated to pay a 5.00% gross overriding royalty and net smelter fee on production of the property.

**d) Hecla**

Shear has agreed to issue an aggregate of 200,000 common shares as a finder's fee upon the following milestones being achieved: 25,000 shares upon the successful acquisition of the land (completed); 75,000 shares upon the discovery of a kimberlite; and 100,000 shares upon the discovery of one or more diamonds per kilogram in any 25 kilogram sample of kimberlite.

In addition, Shear has granted a 2.00% gross overriding royalty fee, of which 1.00% can be purchased by Shear for \$1.5 million.

**e) Churchill West**

The Company is currently exploring the Churchill West project with Samuel, Stornoway and BHPB where the Company holds a 26.32% interest, and Samuel, Stornoway and BHPB have interests of 48.50%, 18.28% and 6.90%, respectively in the diamond rights to the property. The property is subject to a 2.00% gross overriding royalty and net smelter royalty in favour of Hunter with respect to the commercial production of diamonds. Hunter currently holds the non-diamond rights to the property although Shear and Stornoway have a joint right of refusal on these rights.

On March 27, 2006 BHPB informed Shear of its intention not to participate in the 2006 Churchill and Churchill West exploration programs and to allow its interest in the two projects to dilute accordingly.

**f) Sakari**

On August 15, 2006, Shear entered into an agreement with Diamonds North Resources Ltd. ("Diamonds North") whereby Shear can earn a 50.00% interest in approximately 42,000 acres of claims located in the Pelly Bay Diamond District of Nunavut by making a payment of \$97,000 in refundable deposits (completed) and incurring exploration expenditures of \$186,000 before June 30, 2007. The property is subject to a 2.00% gross overriding royalty on all diamonds and a 2.00% net smelter royalty on other minerals payable to BHPB.

**g) Shulin Lake**

During 2006, the Company allowed its vested interest in the Shulin Lake project to dilute to 8.20% because Shear decided not to fully participate in the 2006 drilling programs.

If the Company decides not to participate in future exploration costs, this interest will continue to be diluted on a pro-rata basis to a minimum 4.00% interest.

**h) Piche**

On November 16, 2005, the Company acquired an option on the Piche Lake Property in north central Alberta. Under the terms of the agreement, Shear can earn into an initial 51.00% by incurring a total of \$500,000 of exploration expenditures over two years inclusive of \$100,000 in exploration within the first year. In addition, Shear has the ability to earn an additional 24.00% in the property by spending an additional \$1 million in exploration expenditures over two years after earning 51.00%.

**i) Liege**

On November 30, 2005, the Company acquired a farm-out agreement on a significant land position in north central Alberta for diamond exploration. The property, known as the Liege Diamond project, was acquired from a Canadian oil and natural gas exploration, development and production company. Under the terms of the agreement, Shear can earn into an initial 51.00% interest by incurring a total of \$1,000,000 of exploration expenditures over three years inclusive of \$325,000 in exploration by April 30, 2007. A \$10,000 cash finder's fee was paid by Shear under the terms of the agreement.

**j) Stella Polaris**

On April 21, 2006, the Company acquired The Stella Polaris Diamond project (the "Property") in southern Saskatchewan by paying \$25,000 and issuing 200,000 common shares of Shear ("Common Shares") to the Vendors.

In addition, pursuant to an agreement between Shear and the Vendors (the "Agreement"), Shear must:

- i) pay \$25,000 to the Vendors before January 30, 2007;
- ii) pay \$35,000 to the Vendors and issue to the Vendors an aggregate of 100,000 Common Shares before January 30, 2008;
- iii) pay \$50,000 to the Vendors and issue to the Vendors an aggregate of 100,000 Common Shares before January 30, 2009; and
- iv) pay \$75,000 to the Vendors and issue to the Vendors an aggregate of 200,000 Common Shares before January 30, 2010.

(collectively, the "Consideration"). Until the Consideration is fully paid, Shear and the Vendors are subject to an area of mutual interest and will jointly review decisions regarding the Property, including proposed work programs. Shear can elect to accelerate payment of the Consideration, in which case the Vendors will have no further interest in the Property except for a 3.00% gross overriding royalty ("GORR") on diamonds, metals and minerals produced from the Property. Shear shall be entitled to purchase 1.00% of the 3.00% GORR for \$2 million cash at any time. Shear can be relieved of its obligations pursuant to the Agreement, including the payment of the balance of the Consideration following the initial payment and share issuance, by relinquishing all rights in the Property to the Vendors.

Shear entered into an agreement with Lyncorp International Ltd. ("Lyncorp"), a private Alberta company owned by a director of Shear, whereby Lyncorp agreed to fund \$250,000 in exploration expenditures or acquisition costs on the Property within one year to earn an undivided 49.00% interest in the Property. Once the earn-in is complete, a formal joint venture will be formed whereby each party is responsible for their pro rata share of exploration expenditures and property payments consisting of both cash and shares (or cash equivalent). Shear has a right of first refusal on Lyncorp's interest. Shear is the operator of the project.

## 7. Income taxes

The income tax provision differs from the amount computed by applying the statutory rates to pre-tax income as a result of the following:

	2006 \$	2005 \$
Income tax recovery expected based on a combined federal and provincial (territorial) tax rate of 34.78% (2005 – 37.71%)	483,976	290,075
Increase (decrease) in recovery resulting from		
Impact of tax rate changes	405,145	(6,791)
Unrecognized deductible temporary differences	(187,927)	(180,394)
Share-based compensation	(6,087)	(45,525)
	<u>695,107</u>	<u>57,365</u>

The future income tax assets and liabilities comprise the following temporary differences:

	2006 \$	2005 \$
Non-capital losses	1,009,620	885,037
Deductible finance fees	217,014	211,324
Equipment	26,256	21,674
Valuation allowance	(1,252,890)	(1,118,035)
Future income tax assets	-	-
Mineral properties	<u>(2,379,622)</u>	<u>(2,587,309)</u>
Future income tax liabilities	<u>(2,379,622)</u>	<u>(2,587,309)</u>

The Company has incurred the following non-capital losses for tax purposes, which have not been recognized as future income tax assets:

	Non-capital losses \$	Expiry date
November 30, 2001	197,042	2008
2002	292,721	2009
2003	656,382	2010
2004	774,737	2014
2005	487,351	2015
2006	<u>848,976</u>	2026
	<u>3,257,209</u>	

## 8. Share capital and contributed surplus

### Common shares

#### Authorized

Unlimited number of common shares

Unlimited number of preferred shares

#### Issued and issuable

	2006		2005	
	Common shares #	Amount \$	Common shares #	Amount \$
Balance – Beginning of year	56,128,421	15,775,692	53,903,421	16,469,461
Shares issued for cash	9,134,664	4,399,774	-	-
Share options exercised	400,000	100,000	700,000	175,000
Warrants exercised	252,268	95,863	-	-
Shares issued for other consideration	200,000	114,000	1,525,000	658,250
Redemption of Original Shares (note 2(c))	-	-	(56,128,421)	-
Issuance of new shares (note 2(c))	-	-	56,128,421	-
Share issue costs	-	(459,432)	-	(142,219)
Future income taxes	-	(487,420)	-	(1,384,800)
Balance – End of year	66,115,353	19,538,477	56,128,421	15,775,692

In December of 2005, the Company issued 4,832,664 flow-through shares at a price of \$0.30 per share for gross proceeds of \$1,449,799. The Company will be required to incur \$1,449,799 of qualifying expenditures to be renounced to the holders of the flow-through shares. In addition, agents received 318,441 warrants as commission at an exercise price of \$0.30 per common share, which expire in December 2006. Related to this, the Company has recorded share-based compensation in the amount of \$25,475 as a share issue cost.

In May of 2006, the Company issued 3,073,500 flow-through shares at a price of \$0.70 per share and 1,228,500 units at a price of \$0.65 per unit for gross proceeds of \$2,949,975. Each unit consisted of one common share and one-half of one common share purchase warrant. The Company will be required to incur \$2,151,450 of qualifying expenditures to be renounced to the holders of the flow-through shares. In addition, agents received 284,676 warrants as commission at an exercise price of \$0.65 per common share, which expire in November 2007. Related to this, the Company has recorded share-based compensation in the amount of \$45,548 as a share issue cost.

In connection with the placements, cash costs totalling \$388,409 (2005 – \$142,219) were incurred and recorded as share issue costs.

During 2006, the Company issued 200,000 (2005 – 25,000) shares at a value of \$114,000 (2005 – \$13,250) to acquire and satisfy contractual obligations under certain mineral property agreements. During 2005, the Company issued 1,500,000 common shares to acquire the Hunter properties as described in note 2.

During 2006, the Company renounced \$1,449,799 (2005 – \$4,000,000) of qualifying expenditures to holders of flow-through shares, resulting in a future income tax liability of \$487,420 (2005 – \$1,384,800) and a corresponding reduction of share capital.

### Share options

The Company has a share option plan for the benefit of directors, management and certain consultants of the Company. Under the plan, the Company may grant options for up to 10% of the issued common shares. The exercise price of each option may be discounted up to 25% from the market price of the Company's common shares on the date of grant and an option's maximum term is five years.

The following table summarizes activity related to share options:

	2006		2005	
	Number of options outstanding #	Weighted average exercise price \$	Number of options outstanding #	Weighted average exercise price \$
Balance – Beginning of year	5,275,000	0.55	4,450,000	0.55
Granted	300,000	0.60	1,525,000	0.40
Expired	(275,000)	0.72	-	-
Exercised	(400,000)	0.25	(700,000)	0.25
Balance – End of year	4,900,000	0.57	5,275,000	0.55

The following table summarizes information about the Company's share options outstanding:

2006			2005		
Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years	Number of options outstanding #	Weighted average exercise price \$	Weighted average remaining contractual life Years
311,000	0.21	0.3	400,000	0.25	0.6
734,000	0.26	1.2	311,000	0.21	1.3
1,525,000	0.84	1.8	734,000	0.26	2.2
530,000	0.83	2.2	1,725,000	0.84	2.8
50,000	0.75	2.8	530,000	0.83	3.2
1,400,000	0.40	3.2	50,000	0.75	3.8
50,000	0.41	3.4	1,475,000	0.40	4.2
300,000	0.60	4.4	50,000	0.41	4.4
4,900,000	0.57	2.2	5,275,000	0.55	2.9

4,900,000 of the share options outstanding were exercisable at November 30, 2006 (2005 – 5,175,000).

The Company has recorded share-based compensation and contributed surplus in the amount of \$105,000 (2005 – \$138,125) related to the 300,000 (2005 – 1,525,000) options granted in the year. The share based compensation was charged to general and administrative expenses (2006 – \$8,750; 2005 – \$2,175); management fees (2006 – \$nil; 2005 – \$102,225); consulting fees (2006 – \$nil; 2005 – \$16,325); professional fees (2006 – \$8,750; 2005 – \$nil); the Churchill mineral property (2006 – \$78,750; 2005 – \$17,400); the Other mineral property (2006 – \$4,375; 2005 – \$nil) and the Stella Polaris mineral property (2006 – \$4,375; 2005 – \$nil). The compensation expense has been determined based on the fair value of the options at the grant date.

The fair value of each share option granted is estimated on the date of granting the options using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2006	2005
Risk-free rate	3.99%	2.50%
Expected volatility	88.00%	57.00%
Annual dividend yield	0.00%	0.00%
Expected life of options	3 years	1 year

Option pricing models require the input of highly subjective assumptions including the expected price volatility of the Company's common shares. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable measure of the fair value of the Company's share options.

The following table summarizes the weighted average grant date fair value of options granted during 2006 and 2005:

	2006		2005	
	Weighted average exercise price \$	Weighted average grant date fair value of options \$	Weighted average exercise price \$	Weighted average grant date fair value of options \$
Market price of shares at grant date equal to option exercise price	0.60	0.35	0.40	0.09

#### Warrants

The following table summarizes activity related to warrants:

	2006		2005	
	Number of warrants #	Weighted average exercise price \$	Number of warrants #	Weighted average exercise price \$
Balance – Beginning of year	750,000	1.50	1,435,014	1.10
Issued	1,217,367	0.63	750,000	1.50
Expired	(750,000)	1.50	(1,435,014)	1.10
Exercised for shares	(252,268)	0.30	-	-
Balance – End of year	965,099	0.72	750,000	1.50

The Company has recorded share issue costs in the amount of \$25,475 (2005 – \$70,000) relating to warrants issued to agents in connection with the December 2005 private placement. The warrants vested four months from the issue date, and the fair values were calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free rate	3.94%
Expected volatility	72.00%
Annual dividend yield	0.00%
Expected life of warrants	1 year

The Company has recorded share issue costs in the amount of \$45,548 relating to warrants issued to agents in connection with the May 2006 private placement. The warrants vested four months from the issue date, and the fair values were calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

Risk-free rate	4.22%
Expected volatility	80.00%
Annual dividend yield	0.00%
Expected life of warrants	1.5 years

Warrants issued in 2005 had a fair value of \$nil.

## Contributed surplus

The following table summarizes activity related to contributed surplus:

	2006 \$	2005 \$
Balance – Beginning of year	1,458,825	1,320,700
Value of share options granted	105,000	138,125
Value of agent warrants issued	71,023	-
Value of agent warrants exercised	(20,182)	-
Balance – End of year	1,614,666	1,458,825

## 9. Related party transactions

During 2006, the Company incurred management fees of \$124,500 (2005 – \$119,100) to Encore Resources Inc., a company in which certain directors and officers of the Company have significant influence. In the opinion of management, these fees are considered to be at market value and are recorded at the exchange amount.

Shear Minerals Ltd. is currently participating in a joint venture at the Shulin Lake Property. One of the partners is Shulin Lake Mining, a private company in which a director of Shear Minerals Ltd. has a 50% ownership position.

In relation to the acquisition of the Stella Polaris Property, Shear entered into an agreement with Lyncorp International Ltd. ("Lyncorp"), a private Alberta company owned by a director of Shear (see note 6(j)).

## 10. Financial instruments

The Company's financial instruments recognized on the balance sheet consist of cash and cash equivalents, restricted cash, short-term investments, accounts receivable, operator recoveries and accounts payable and accruals. The Company has no unrecognized financial instruments.

The fair value of short-term investments is determined by the trading price of the shares at the balance sheet date. The estimated fair market values of the other financial instruments approximate their carrying values due to their short-term maturities.

Operator recoveries are due from companies which operate in the mining exploration industry and accordingly, are subject to the risks associated with this industry. All of the operator recoveries are due from three companies.

## 11. Subsequent events

Subsequent to November 30, 2006, 102,373 warrants were exercised for gross proceeds of \$47,132 and 386,000 options were exercised for gross proceeds of \$95,310.